E.L.K. ENERGY INC.

APPLICATION FOR RATES EFFECTIVE MAY 1, 2017

EB-2016-0066

EXHIBIT 1 – ADMINISTRATIVE DOCUMENTS

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1.0 EXECUTIVE SUMMARY

On January 6, 2010, E.L.K. was incorporated pursuant to the *Business Corporations Act*, of Ontario, and is the successor corporation to the Hydro-Electric Commission for the Town of Essex, the Corporation of the Town of Lakeshore Hydro-Electric Commission, and the Kingsville Hydro Electric Commission. Initially, the three municipalities were shareholders of the corporation. In 2008, E.L.K.'s shareholders entered into a share purchase agreement whereby the Town of Essex agreed to purchase the common shares of the Town of Lakeshore and Town of Kingsville. The transaction was approved by the Board in January 2009, and the Town of Essex became the Company's sole shareholder. E.L.K. is therefore 100% owned by The Corporation of the Town of Essex.

On October 18, 2012, the Ontario Energy Board (the "Board" or "OEB") issued its "Report of the Board: A Renewed Regulatory Framework for Electricity Distributors: A Performance Based Approach", and subsequently commenced implementation of the Renewed Regulatory Framework. This report set out a comprehensive performance-based approach for the Renewed Regulatory Framework which promotes the achievement of outcomes that will benefit existing and future customers; will align customer and distributor interests; will continue to support the achievement of important public policy objectives; and will place a greater focus on delivering value for money. Under this approach, a distributor is expected to demonstrate continuous improvement in its understanding of the needs and expectations of its customers and its delivery of services.

On March 5, 2014, the Board issued its report on "Performance Measurement for Electricity Distributors: A Scorecard Approach". The report sets out the Board's policies on the measures that will be used by the Board to assess a distributor's effectiveness and improvement in achieving customer focus, operational effectiveness, public policy responsiveness, and financial performance to the benefit of existing and future customers.

E.L.K. is one of the leanest and lowest cost LDC's by rates in the province. E.L.K. continues to strive to provide electricity to our customers in a safe and efficient manner at a fair and reasonable cost. This can be evidenced and proven using the OEB's website tool "Calculate your Bill". E.L.K. calculated each utility in the tool using the monthly average of 800 kWh and Time-of-use Pricing plan and the results exhibited that there was only 1 other utility in both the Residential and Small Business Sector whose bills were at lower cost than E.L.K.`s using this mechanism.

This has once again been re-established through the Pacific Economics Group research, LLC 2015 Benchmarking Update Report to the Board issued July 2016 that places E.L.K. in Group 1, along with only 5 other utilities.

E.L.K. prides itself on being efficient while at the same time improving operationally and as an organization.

Management of E.L.K. continues to review its business strategy and objectives from time to time to ensure compliance and a direct alignment between the OEB's RRFE and E.L.K.'s business strategy.

The key elements of this Application are as follows:

- E.L.K. is requesting the approval of its proposed service revenue requirement of $4,513,093, an increase of $627,952 or 14% over 2017 revenue at existing rates.

- The main drivers of the revenue deficiency, as outlined in Exhibit 6 are:

    - E.L.K. projecting two additional operational linemen in the Test year to assist with future succession planning.

    - Cost increases from 2012 in order to maintain the overhead and underground system.

    - Costs in 2017 for two additional office staff members within E.L.K. E.L.K. is planning for an addition of an engineering manager to assist the operations manager as well as a financial and regulatory analyst to assist with the ever increasing regulatory requirements.

    - Costs incurred by E.L.K. for assistance in the preparation and support of this application.

- However, the increases in OM&A are offset by decreases in depreciation and PILs resulting from changes in accounting policies.

- The OM&A increase is also offset by a slightly lower return on rate base resulting from a lower rate base which is impacted by a lower working capital allowance of 7.5% in 2017.

E.L.K. is requesting a rate base of $ 12,000,666. This rate base is also used to determine the proposed Revenue Requirement found at Exhibit 6. The Rate Base for the 2017 Test Year has been forecasted to decrease $544,423 (4.3%) over the 2016 Bridge Year and further described in Exhibit 2.

E.L.K. has described its approach for major capital investments as part of the DSP in Exhibit 2. Specifically, in the area of System Renewal, E.L.K. relies on asset demographic and condition data to develop investment levels, which are then tied to portfolio performance and relative reliability outcomes. For System Service projects, a prioritization method is used to objectively assess material investments against corporate objectives as described. In addition, projections for System Access have been developed that include a forecast of new connections over the plan period, against which historic unit costs have been applied. Exhibit 2 details out E.L.K.'s capital plan over the DSP period.

This Application is based on E.L.K.'s 2017 Business Plan for the regulated portion of its business and can be found at Appendix 1A – E.L.K. Business Strategic Plan 2017. In developing the Business Plan, E.L.K. was mindful of the need to align its business principles with the objectives of the RRFE, particularly with respect to improvements in productivity, maintenance of safety, excellent customer service and a steady and fair financial return for the shareholder. E.L.K.'s Business Plan has changed from previous years to ensure a closer alignment with the objectives of the RRFE.

1.1 Mission

E.L.K.'s mission statement is to provide the highest quality service to our customers by ensuring that the electrical system is designed, constructed and maintained to ensure its reliability, safety and affordability while increasing shareholder value.

1.2 Core Objectives

E.L.K.'s priorities are defined in its Corporate Goals

- Provide a safe and reliable electricity distribution system with the capacity to meet the expectations of our customers and support local economic growth.
- Promote and practise excellence in safety.
- Establish the lowest retail rates possible without compromising the financial integrity of the Corporation in compliance to our Shareholder's direction and Corporate Strategic Plan.

E.L.K. has taken a strategic approach to its business plan in order to position itself to deliver on its goals and objectives. As set out in the Business Plan, E.L.K.'s has specific business goals:

Maintain an adequate and skilled employee base to meet ongoing demand and meet E.L.K.'s Capital Investment Plan by hiring two additional linemen (tied to RRFE Customer Focus and Operational Effectiveness Outcomes)

This goal has changed from previous years as E.L.K.'s anticipated addition of two operational linemen in the 2017 Test year will assist in E.L.K.'s future succession planning. This will assist E.L.K. in properly managing workload and well as training new staff members during a time when E.L.K.'s age of workforce continues to increase and retirements become a forefront issue. Complexities and informational knowledge collected and experience over twenty years will be required to be learned and passed to the next generation of staff. This is a new business goal as there has been no retirement's prior to Dec 31, 2015, and will definitely increase customer service as well as operational effectiveness. This is responsive to customer feedback as respondents to E.L.K.'s Oracle Poll Customer Survey Report found in Appendix 1D were 80% in favor to an operating budget increase of approximately $3.3M or 20% higher than in prior years, which specifically supports the hiring of two additional linemen being sought in this application.

E.L.K.'s capital plan is described in detail in the Distribution System Plan (DSP) in Exhibit 2. The DSP provides the OEB and all interested parties with an overview of E.L.K.'s asset planning objectives and goals, a review of E.L.K.'s asset-related operational performance over a 5 year historical period, and a preview of planned expenditures.

This DSP serves to outline how E.L.K. will develop, manage, and maintain its distribution system equipment to provide a safe, reliable, efficient, and cost effective distribution system.

Chapter 5 requirements for the OEB are referenced by sections and subsections. Within this DSP E.L.K. has followed the outline of the OEB regulation in numerical order by section number.

The DSP identifies the major initiatives and projects to be undertaken over the planning period, to meet customer and stakeholder requirements. Preparation of the DSP in this format is intended to supplement E.L.K.'s rate application for 2017 distribution rates to the OEB.

The intent of E.L.K. is to meet the filing requirements set out by the OEB in Chapter 5 (Consolidated Distribution System Plan), and to provide the information required by the Board under the Renewed Regulatory Framework for Electricity ("RRFE") to facilitate assessment of E.L.K.'s application, in the areas involving planned expenditures on the distribution system and other infrastructure. For the purposes of the filing, the DSP has consolidated documentation of E.L.K.'s asset management process and capital expenditure plan.

The DSP is consistent with Board expectations for distributors to optimize investments with present and future customers in mind. This Plan is focused on delivering good value for money and aligns the interests of E.L.K. with those of its customers; it also supports the achievement of public policy objectives and sustaining financial viability. E.L.K. wants to ensure that the performance outcomes, as established by the OEB for electricity distributors, are being achieved in a planned manner.

The DSP consolidates documentation of E.L.K.'s Asset Management Process and the Capital Expenditure Plan to maximize overall value to stakeholders in areas like service quality, customer satisfaction, safety, asset renewal and financial performance.

Increase regulatory/accounting and operational capacity in the accounting and engineering departments by planning to hire two additional staff members, being a regulatory/accounting analyst and engineering manager (tied to RRFE Customer Focus and Operational Effectiveness)

This goal has changed from previous years due to a better understanding and appreciation of new initiatives and requirements in both the regulatory and operation fields which have resulted in increased hours of current staff and less periodic review of monthly reporting. E.L.K. has decided now is the time to right size these departments with qualified individuals. Once again, this is responsive to customer feedback as respondents to E.L.K.'s Oracle Poll Customer Survey Report found in Appendix 1D were 80% in favor to an operating budget increase of approximately $3.3M or 20% higher than in prior years. Further, approximately 70% of respondents support E.L.K.'s operations and maintenance plans even with an impact on rates, which specifically support the hiring of two additional linemen being sought in this application.

In 2017, E.L.K. is expecting to complement its current supervisory staff with the addition of an engineering manager and accounting/regulatory analyst. This complement will allow the Director, Finance and Regulatory Affairs and Operations Manager to focus on a broader scope, getting involved in larger dynamic type issues, participating more in working groups, joining councils and greater participation in industry-wide type issues and councils/groups. By allowing the current Manager of Operations and Director, Finance & Regulatory Affairs to extend themselves into these new type initiatives will definitely increase knowledge, thought processes and ultimately will be able to provide benefits from both a service and cost perspective for E.L.K. and our customer base, providing that value added benefit. Although there will be an increase to OM & A, this is required to create greater efficiencies in the future.

Plan to shift annual financial reporting to more intermittent reporting (tied to RRFE Financial Performance)

With the addition of a new regulatory/accounting employee this will allow E.L.K. to create this new goal as the increase in department personnel will allow for this increase in function. E.L.K. new regulatory/accounting analyst will allow the Director, Finance and Regulatory Affairs to focus more on reviewing balances, comparisons to budget on a more regular basis. This will allow management to continuously manage and monitor financial performance over the year. This in turn will allow for continuous improvements in productivity and performance throughout the year. This avoids major surprises at year end and potential swings in under vs. over earnings. The hiring of two additional staff members will increase costs and have been taken into consideration in this COS. Although there are increased costs, the benefits of increased financial reporting outweigh these costs. As previously mentioned, this is responsive to customer feedback as respondents to E.L.K.'s Oracle Poll Customer Survey Report found in Appendix 1D were 80% in favor to an operating budget increase of approximately $3.3M or 20% higher than in prior years. Further, approximately 70% of respondents support E.L.K.'s operations and maintenance plans even with an impact on rates, which specifically support the hiring of two additional linemen being sought in this application.

Plan to meet E.L.K.'s Service Quality Objectives by increasing formal customer engagement activities (tied to RRFE Customer Focus Outcome)

E.L.K. has consistently exceeded the OEB's Service Quality Indicator standards, and as set out in Exhibit 2, it is targeting to maintain its performance at levels at or above the OEB standards for 2016 and 2017. E.L.K. is continuously growing at a reasonable rate of approximately 1-2% yearly. This goal is a newer goal from previous years due to the E.L.K. belief that the consumer needs to be engaged more to allow them to have greater control of their consumption as well as a greater understanding of the electricity market. E.L.K.'s dedicated maintenance programs includes tree trimming resulting in few outages that would have otherwise occurred during significant storm events. Responding to increased customer demand for up-to the minute information, E.L.K. is planning a more extensive use of social media applications, such as Facebook, Twitter and a join our mailing list which will allow E.L.K. customers to more timely information and news. This is responsive to customer feedback received within the Oracle Poll survey. In 2015 and 2016, E.L.K. continued to improve the manner in which service quality was improved, and details of the outreach are provided in Table 1-15. E.L.K. intends to continue these initiatives in 2017 and beyond. This specifically relates to an increase in OM &A being sought within our application.

Plan to meet E.L.K.'s Conservation and Demand Management Objectives (tied to RRFE Customer Focus and Public Policy Responsiveness Outcomes)

E.L.K. has been involved from the start of the Province's CDM initiative in 2004 under OEB 2004-2006 CDM, followed by the Ontario Power Authority "Every Kilowatt Counts" 2007-2010 CDM program and most recently the 2011-2014 OPA "saveONenergy" CDM program.

At the end of 2014, E.L.K.'s net cumulative energy savings was 97% of its target. E.L.K. continues its efforts to instill a conservation culture through promotion and adoption of conservation and demand management programs. These outreach programs make a difference and have become an integral component of E.L.K.'s communications and customer engagement strategy.

Now, new framework to achieve 7 terawatt-hours of electricity savings between 2015 and 2020 has been developed by the OPA (now known as the Independent Electricity System Operator, the "IESO") working with electricity distributors. With this new framework distributors will assume greater leadership in the development of new programs. This is to be completed through the use of Conservation and Demand Management programs. The implementations of these CDM programs are mandatory. These programs will encompass all customer segments including residential, small business and industrial as well as low income. E.L.K. Energy Inc.'s target has been established at 16.9 GWh which represents a twofold increase from the 8.25 GWh target for 2011-2014.

The year 2015 acted as a bridge year for most LDC's as each LDC must also submit a detailed CDM plan to be approved by the IESO and OEB.

The CDM Plan is a detailed road map that is a year by year plan for meeting the 2020 target. It includes an achievable potential calculator that identifies the area of local CDM opportunities by sector, end-use and building type based on local information. Further, a cost effectiveness calculator is used that calculates cost effectiveness metrics required for the CDM Plan. Program savings are forecasted through program archetypes and different program scenarios.

Lastly within this plan, a detailed financial modelling tool is to be included. LDCs must compare funding options, calculate potential performance incentives and allocate administrative amounts to various programs. This continues to be a goal of E.L.K. E.L.K. believes it has taken the next step in trying to pursue great results. This is responsive to customer feedback of approximately 86% of respondents in the Oracle Poll survey feel the value E.L.K. provides is satisfactory which includes CDM initiatives.

E.L.K. selected Greensaver to assist E.L.K. with its conservation programs and is also working with a Roving Energy Manager, new in 2016. This shift to Greensaver will allow E.L.K. to take advantage of such a well-known company of great size, and utilizing their efficiencies and resources effectively as they perform similar duties for up to 51 other utilities in the province.

Greensaver is Ontario's leading not-for-profit energy efficiency organization. For more than 25 years, they have delivered energy conservation programs for government, agencies and utilities, assisting homeowners and businesses across Ontario to reduce their energy and environmental footprint. They are currently the face of 51 utilities.

Over the years, E.L.K. has worked closely with many commercial and residential customers, vendors, service providers and local agencies. Since 2007, E.L.K. has offered the Heating & Cooling Incentive, Peaksaver, Peaksaver Plus, Product Coupons, Fridge and Freezer pick-up, Home Assistance, Small Business Lighting, Audit Funding, High Performance New Construction; and Retrofits.

In 2015, E.L.K. exceeded its target goal set within its CDM plan and continues to work with Greensaver to meet each year's individual goal. There are no additional costs and bill impacts with respect to this goal as IESO funding is fully provided to run these initiatives. The below chart illustrates E.L.K.'s dedication toward having a focus of each as well as the big picture. E.L.K. will continue to promote energy efficiency and conservation into the future.

Annual Full Cost Recovery Progress

#	Metric	Result
1	Net Verified 2015 Annual Energy Savings from Full Cost Recovery Programs (MWh)	1,797.039
2	Net 2015 Annual Energy Savings from Full Cost Recovery Program per CDM Plan Forecast (MWh)	1,365.687
3	Annual Full Cost Recovery Progress (%)	132

Plan to formalize asset management process (track project execution vs. timeline estimates, track project cost vs budget) (tied to RRFE Operational Effectiveness Outcomes)

This goal has changed as it is now a regulatory requirement as part of the DSP process. E.L.K. is currently in the process of improvements to formalize its asset management process during the term of this COS and the DSP. E.L.K. currently tracks costs for each particular project and compares these actual amounts to budgeted amounts for proper reconciliation and variance analysis. E.L.K. will expand this function to include a greater focus on project execution as well as monitoring and planning timelines versus actual completeness. This is responsive to customer feedback as respondents to E.L.K.'s Oracle Poll Customer Survey Report were in favor to an operating budget increase of approximately $3.3M or 20% higher than in prior years. Further, approximately 70% of respondents support E.L.K.'s operations and maintenance plans even with an impact on rates. With, the addition of the engineering manager being sought in this application, this will allow our operations manager and engineering manager to work in tandem and create a cohesive duo that will allow for the accurate tracking and management of these goals.

Plan to meet E.L.K.'s Health, Safety and Wellness Objectives (tied to RRFE Customer Focus and Operational Effectiveness Outcomes)

In keeping with E.L.K.'s vision to pursue health and safety as a top priority, E.L.K. uses injury prevention procedures with the corporation. As well, joint health and safety committee members conduct workplace inspections, and would review accident reports. E.L.K. participates in Electrical Safety and Conservation presentations to local elementary schools in the E.L.K. service territory. E.L.K. has shifted its focus more recently toward health and safety and has implemented a very detailed Workplace Violence and Harassment Policy in addition to the above The costs associated with these factors are all part of E.L.K.'s normal operating budget. Priorities are being analyzed to achieve maximization of value.

E.L.K. continues to be one of the most efficient and cost effective utilities in the province, while maintaining the highest level of reliability and workplace safety possible. E.L.K. continues its commitment to safety to protect the public and employees within our community. In E.L.K.'s scorecard, the utility recorded zero fatalities and zero serious incidents within its operating service area. Annual audits conducted by the Electrical Safety Authority have reported that E.L.K. was "C" – Compliant with Ontario Regulation 22/04 (Electrical Distribution Safety). As well, E.L.K.'s serious electrical incident index target is zero, and E.L.K. has achieved a zero number of general public incidents as well as zero fatalities. This goal continues to be E.L.K.'s target now and in the future. This has been achieved and maintained by our resilient commitment to safety coupled with the adherence to company procedures and policies. With regards to reliability, E.L.K. continues to hold the reliability of distribution system to the highest standards. This is supported by the low "Average Number of Hours that Power to a Customer is interrupted" and "Average Number of Times that Power to a Customer is interrupted" indices that are reported in E.L.K.'s Scorecard. Concerning its Distribution System Plan, full details of the Distribution System Plan can be found in Exhibit 2.

E.L.K. is committed to maintaining distribution system reliability and quality to achieve or outperform the targets for E.L.K. established by the OEB through the following objectives:

- Managing, maintaining and operating the distribution system in a manner that will, cost effectively, minimize: (i) the average number of hours that power to E.L.K.'s customers is interrupted; and (ii) the frequency of such interruptions.
    - Target: Within 0.80 – 2.82 average number of hours that power to a customer is interrupted.
    - Target: Within 0.34 – 0.95 average number of times that power to customer is interrupted.

1.3 Managing and maintaining the distribution system to meet power quality standards in accordance with good utility practice, all applicable standards and guidelines and E.L.K.'s Conditions of Overview of the Application

To assist the Board in better understanding how the above noted E.L.K. objectives and business plan relates to what is sought in the Application, both Exhibit 2 and Exhibit 4 of this Application, has indicated the relationship between each of the objectives noted above and the specific operational and capital costs set out in those exhibits. Additionally, E.L.K. has prepared this application using the OEB prescribed Cost of Capital Parameters and expects that these prescribed parameters will continue to allow E.L.K. to maintain stable financial performance into the near future.

Positioning the Business for Change

E.L.K. has served the Towns of Essex, Lakeshore and Kingsville which include six non-contiguous service areas, serving the communities of Belle River, Comber, Cottam, Essex, Harrow and Kingsville for the last 16 years. Residents, businesses and institutions who receive electricity distribution services from E.L.K. will be affected by the Application.

E.L.K. must continue to evolve its business to meet current and future demands from its customers, adding value for the community and the broader sector. The distribution sector in Ontario is poised for further change in the future. E.L.K. will identify different strategic business scenarios, critical success factors for each scenario and prepare itself for eventual change.

Efforts to achieve cost reductions and productivity improvements in the Test Year

In the 2017 Test Year, E.L.K. will continue to make cost reduction and productivity improvement measures a priority.

1. E.L.K. will continue to offer and promote eBilling to maintain and potentially increase the number of customers using this billing option.

2. E.L.K. will continue with in-house monthly bill production and printing. E.L.K. is already billing all customers on a calendar month basis.

3. E.L.K. will continue to utilize an Operational Data Store.

4. With regards to bad debt management, E.L.K. will use the 2016 year to date trend to project E.L.K. bad debt and attempt to strengthen internal collection procedures.

2.0 ADMINISTRATION

2.1 Application

IN THE MATTER OF the Ontario Energy Board Act, 1998, S.O. 1998, c.15, 3 Schedule B, as amended (the "OEB Act");

AND IN THE MATTER OF an Application by E.L.K. Energy Inc. (E.L.K.) under Section 78 of the OEB Act to the Ontario Energy Board for an Order or Orders approving or fixing just and reasonable rates and other service charges for the distribution of electricity as of May 1, 2017.

(this "Application")

Applicant's Name: E.L.K. Energy Inc.
(the "Applicant" or "E.L.K.").

Background:

1. The Applicant is a corporation incorporated pursuant to the *Business Corporations Act* (Ontario) with its head office in the Town of Essex. The Applicant carries on the business of distributing electricity serving more than 11,700 customers in the Towns of Essex, Lakeshore and Kingsville. Within these towns, which cover a large geographic area in Southwestern Ontario, E.L.K. has six non-contiguous service areas, serving the communities of Belle River, Comber, Cottam, Essex, Harrow and Kingsville.

2. The Application has been prepared pursuant to the OEB's Renewed Regulatory Framework for Electricity Distributors as detailed in the Report of the Board dated October 18, 2012 (the "RRFE").

3. Unless specifically stated otherwise in the Application, the Applicant followed Chapter 2 of the OEB's Filing Requirements for Electricity Distribution Rate Applications last revised on July 14, 2016 (the "Filing Requirements") in preparing the Application.

4. The Applicant has prepared a Consolidated Distribution System Plan ("DSP") in accordance with Chapter 5 of the OEB's Filing Requirements for Electricity Transmission and Distribution Applications.

5. The Applicant acknowledges that the OEB has published an update to the cost of capital parameters and that these matters will affect the Revenue Requirement that the Applicant has requested in this Application.

<u>Proposed Effective Date of Rate Order:</u>

1. The Applicant requests that the OEB make its Rate Order effective May 1, 2017 in accordance with the Filing Requirements.

2. In the event that the OEB is unable to provide a Decision and Order in this application for implementation by the Applicant as of May 1, 2017, the Applicant requests that the OEB declare its current rates interim, effective May 1, 2017, pending the implementation of the OEB's Rate Order for the 2017 rate year.

Form of Hearing: The Applicant requests that this Application be disposed of by way of a written hearing.

<u>Certification:</u>

I, Mark Danelon, Director, Finance & Regulatory Affairs of E.L.K., certify that the evidence filed is accurate, consistent, and complete to the best of my knowledge.

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Mark Danelon, CPA, CA
Director, Finance & Regulatory Affairs

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E.L.K.'s website address is https:/www.elkenergy.com

Publication Information:

Residents, businesses and institutions in the Towns of Essex, Lakeshore and Kingsville which include six non-contiguous service areas, serving the communities of Belle River, Comber, Cottam, Essex, Harrow and Kingsville who receive electricity distribution services from E.L.K. will be affected by the Application.

The Application and related materials will be posted on the E.L.K.'s website, and will be available for viewing at the following internet address: https://www.elkenergy.com/business-commercial/business-rates/ as well as https://www.elkenergy.com/residential/rates/

The Applicant does not currently use social media accounts to communicate with its customers, although with the planned addition of a new finance/regulatory staff, this hopes to become a reality in 2017 which will add value to our customers and the ever increasing desire of knowledge through different and more modern mediums.

Bill Impacts:

Further information pertaining to the causes of these bill impacts can be found in Exhibit 8.

In preparing this application, E.L.K. has considered the impacts on its customers, with a goal of minimizing those impacts. Table 1-1 provides a summary of total bill impacts ($ and %) for typical customers in all rate classes. These impacts reflect E.L.K's proposal for a two year disposition period for the RSVA – Global Adjustment amount. This rate mitigation strategy allows all classes to have a total bill impact of less than 10%

Table 1-1: Total Bill Impacts

Rate Class	Monthly kWH	Monthly kW	$ Change	% Change
Residential	750		$7.93	5.9%
General Service < 50 kW	2,000		$24.72	7.2%
General Service > 50 kW	55,000	170	$801.91	8.2%
Street Lights	70	0.2	$0.28	2.0%
Sentinel Lights	70	0.2	$1.30	9.9%
Unmetered Scattered Load	700		$7.73	6.4%
Embedded Distributor	1,000,000	2,000	($4,775.54)	(2.9%)

Incorporated in the overall monthly bill impact is the effect of the following major components of the electricity bill:

- Distribution rates (monthly service charge and volumetric rates);
- Disposition of deferral and variance accounts:
- Revised Retail Transmission rates;
- Wholesale Market Service rates; and
- Loss Factors.

<u>Statement as to the Form of Hearing Requested</u>

E.L.K. requests that, pursuant to Section 34.01 of the Board's rules of Practice and Procedure, this proceeding be conducted by way of written hearing. E.L.K. submits that this is the most efficient and cost effective manner to process the Application.

The requested effective date for the application is May 1, 2017.

<u>Statement of Deviations</u>

E.L.K. has adhered to Board's filing documents listed below in preparing this application.

Chapter 2 of the Board's "Filing Requirements for Electricity Distribution Rate Applications – 2016 Edition for 2017 Rate Applications – Chapter 2: Cost of Service", issued July 14, 2016;

The Board's "Filing Requirements for Electricity Transmission and Distribution Applications – Chapter 5: Consolidated Distribution System Plan Filing Requirements", issued March 28, 2013.

<u>Statement of Changes to Methodologies</u>

The pro-forma projections for the 2017 Test Year have been prepared in accordance with E.L.K.'s usual process, with the following exception:

Regulatory costs have been normalized over the five year application period. In non COS years, the total regulatory expense is accounted for in the specific year in question.

<u>Statement Regarding Monthly Billing</u>

E.L.K. can confirm that that it has already implemented monthly billing for all customers by December 31, 2016 pursuant to the OEB's April 15, 2015 DSC amendment.

<u>Identification of Board Directives from Previous Board Decisions</u>

There are two previous Board Decisions that related to E.L.K.'s COS in 2012, (EB-2011-0099) described below and how they were handled by E.L.K.

1. E.L.K.'s decision and rate order dated May 2, 2013 regarding EB-2011-0099 stated:

"The second concern pertained to issues 2.4 and 4.2, specifically in regard to the proposal to consider the disposition of any balances in Account 1576 – Accounting Changes Under CGAAP ("account 1576") in the 2014 IRM proceeding. The Board established account 1576 to allow distributors to record the impact of changes in depreciation rates and capitalization of overheads policy on Property Plant and Equipment account balances. The Settlement Agreement provides that account 1576 is to be addressed in E.L.K.'s 2014 IRM proceeding while the account description states that the disposition of the account is to be considered at the distributor's next cost of service hearing. Board staff submitted that the Board may wish to address this difference, should it approve the settled issue as filed. In that Board staff is not objecting to the proposed treatment account 1576, E.L.K. submitted that it did not object to the clarification suggested by Board staff. The Board recognizes that the account description provides that the disposition of the account balance is to occur in the distributor's next cost of service application. As described in the Settlement Agreement, the depreciation rates and amounts of overheads capitalized reflected the rate base and revenue requirement are to be reviewed over the next few months and E.L.K.'s rates will be subsequently adjusted, as required, for purposes of preparing the 2014 IRM application. The Board concludes that the impact of departing from the Board's accounting policy in this case is a practical outcome of the agreement and results in no harm to rate payers. The Board reminds E.L.K. that pursuant to the Board's policy direction dated July 17, 2012, the adoption of IFRS based regulatory accounting changes to depreciation expense and capitalization policies is mandatory in 2013.

In response to the above decision, E.L.K. addressed this matter in its 2014 IRM application. Specifically, E.L.K implemented a Rate Rider for Disposition of Accounting Changes under CGAAP Account 1576 which took effect for rates beginning May 1, 2015 until April 30, 2016.

2. E.L.K.'s decision and rate order dated May 2, 2013 regarding EB-2011-0099 also stated:

"The parties have also agreed for the purposes of settlement that E.L.K. will credit its customers for 50% of its gain on the disposition of the Kingsville Satellite location. As no disposition has yet taken place, the Parties have agreed that E.L.K. will track the gain, if any, on the disposition of the property and that E.L.K. will include the 50% of that amount for disposition at its next Cost of Service Application.

In response to the above decision, the Kingsville Satellite location did not sell until Q2 of 2016, and as such is not part of this Cost of Service Application. E.L.K. will address this issue in its next IRM, the 2017 IRM application or next COS, whichever the OEB prefers.

2.1.1 Conditions of Service

E.L.K.'s Conditions of Services are found at https:/www.elkenergy.com

On May 15, 2014 the OEB issued a Notice of Amendment to Distribution System Code (DSC) that would require distributors to include certain minimum requirements in their conditions of service in relation to unmetered load customers. After completion of E.L.K.'s Cost of Service OEB approval, E.L.K. will amend its condition of service to include the following points in relation to unmetered loads:

- The rights and obligations of unmetered load customers and the distributor in relation to each other.
- The process by which unmetered load customers are to file updated data and evidence necessary to validate the data.
- The process by which unmetered load customer billing updates will take place.
- Communication and engagement with unmetered load customers in relation to the preparation of cost allocation studies, load profile studies and other rate-related materials which may materially affect unmetered load customers.

2.1.2 Charges Listed in Conditions of Service

E.L.K. confirms there are no rates or charges listed in the Conditions of Service that are not on the E.L.K.'s Tariff of Rates and Charges.

2.1.3 Consultations with the Embedded Distributor (Hydro One)

E.L.K. has an Embedded Distributor customer which is HONI.

In connection with preparing its rate application, E.L.K. has consulted with HONI and advised HONI on E.L.K.'s cost allocation and rate design proposal. On July 8, 2016, E.L.K. had a conference call with HONI to outline the proposal and HONI, while HONI reserved final judgement until they see the actual numbers (which makes sense); HONI was in general agreement with the approach proposed by E.L.K. On August 17, 2016, E.L.K. provided a copy of its model to HONI. HONI responded in writing and confirmed that "it has reviewed the 2017 cost allocation model with respect to ELK's proposed Embedded Distributor rate class and has no concerns with the determination of costs allocated to the embedded distributor class." Hydro

One has raised a concern with respect to the clarity of loss adjusted charges and E.L.K. is still in consultation with Hydro One.

More detailed information can be sourced in Exhibit 7.

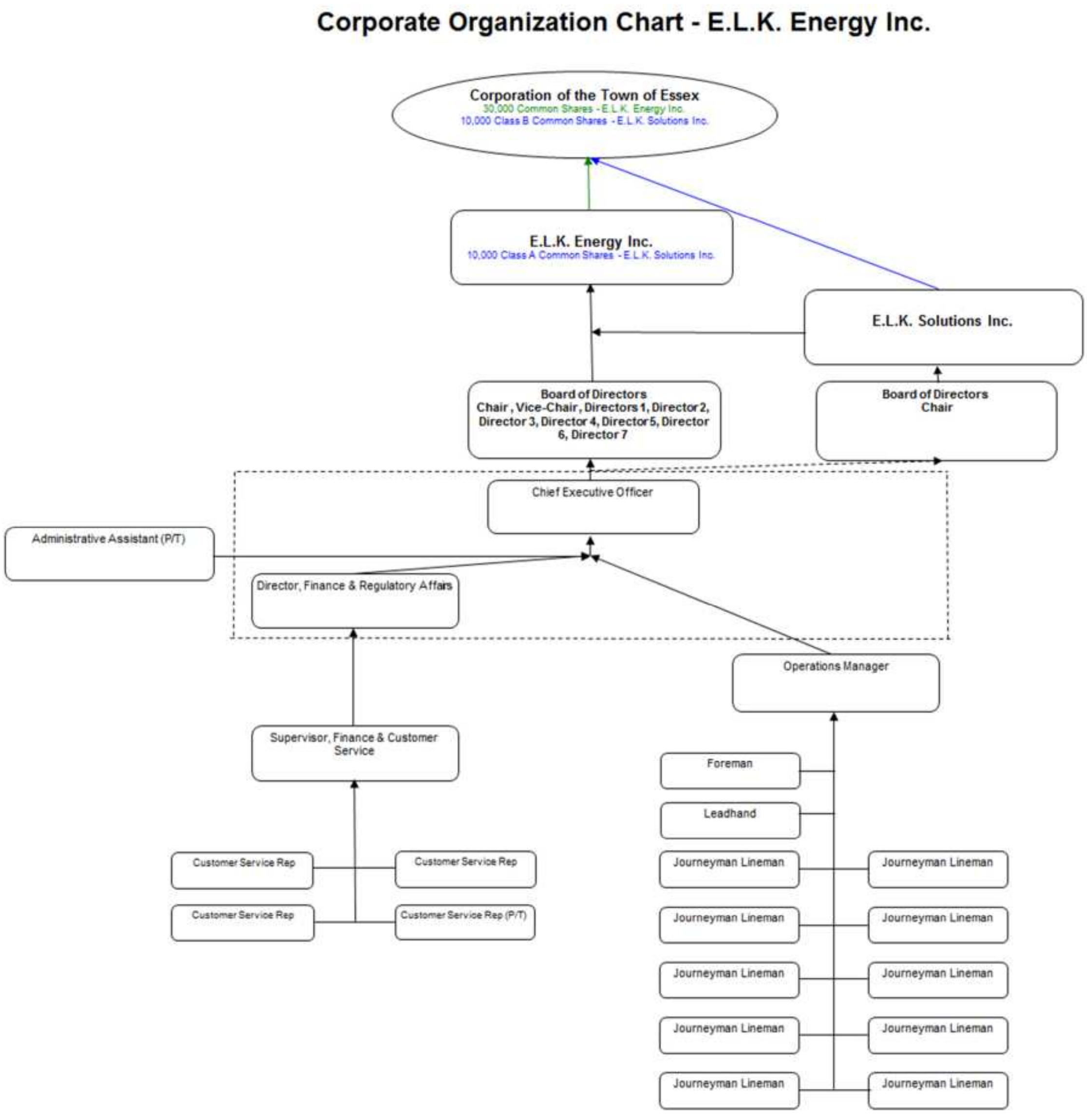
2.1.4 <u>Corporate and Utility Organizational Structure</u>

On January 6, 2010, E.L.K. was incorporated pursuant to the *Business Corporations Act,* of Ontario, and is the successor corporation to the Hydro-Electric Commission for the Town of Essex, the Corporation of the Town of Lakeshore Hydro-Electric Commission, and the Kingsville Hydro Electric Commission. Initially, the three municipalities were shareholders of the corporation. In 2008, E.L.K.'s shareholders entered into a share purchase agreement whereby the Town of Essex agreed to purchase the common shares of the Town of Lakeshore and Town of Kingsville. The transaction was approved by the Board in January 2009, and the Town of Essex became the Company's sole shareholder. E.L.K. is therefore 100% owned by The Corporation of the Town of Essex.

The executive team at E.L.K. comprises the Chief Executive Officer as well as the Director, Finance & Regulatory Affairs.

A chart illustrating E.L.K.'s corporate family and utility organizational structure (including main units and management positions) is provided in Table 1-2 below. Further, <u>Appendix 1J</u> provides a description of each of E.L.K.'s main operational units for additional information and added knowledge. The chart illustrated below also shows the extent to which the parent company is represented on the utility company's Board of Directors and a description of the reporting relationships between utility and parent company management.

Table 1-2 Corporate & Utility Organizational Structure



2.2 Corporate Governance

2.2.1 **Board Meetings**

E.L.K. holds monthly Board Meetings.

E.L.K.'s Board Representation:

The E.L.K. Board is appointed by E.L.K.'s shareholder. The Corporation of the Town of Essex identifies and selects new members of the Board.

E.L.K.'s Board of Directors consists of nine directors, none of which is an employee or officer of the utility. Of the nine directors, four are independent, and do not sit on the Board of any E.L.K. affiliate. This conforms to the Affiliate Relationship Code ("ARC") whereby at least one-third of its directors must remain independent from Affiliate Boards.

2.2.2 **Board Committees**

There is one regular committee of the E.L.K. Board, that being the Finance Committee.

2.2.3 **Board and Management**

The E.L.K. Board and Management work together. Some general principals of corporate governance include:

Each of the Board and Management has a fiduciary duty in relation to the Company.

The Board and Management must work together and in harmony and collaborate together not independent from one another.

Management develops plans, procedures, guidelines and reports; the Board provides advice, feedback and perspective.

A tone of trust and respect is important to the relationship between Management and Board.

Open, frank and honest discussions are encouraged at all Board meetings. Management provides the E.L.K. Board with written reports, oral reports, verbal and written responses to E.L.K. Board inquiries, that are crucial to the successful realization of E.L.K.'s corporate goals and objectives. These practices, enable E.L.K. Board members to understand the issues facing the utility, and assist the Board in exercising its independent judgement in carrying out its responsibilities. The E.L.K. Board conducts an annual assessment of E.L.K.'s performance and discusses individual management's member's performance.

2.2.4 **Board Mandate**

The board's primary duty is to supervise the management of the business and affairs of E.L.K. and to protect the investment of the Shareholder by managing the exposure of inherent risks.

The Board's oversight relationship with management and accountability to the Shareholder is to be guided by the Company's Statement of Mission, Vision and Values.

Directors are expected to work with their fellow Directors to fulfill the mandates of the Board and the committees of the Board.

Board members have diverse and complementary skills that can be leveraged to the Benefit of the Company.

Reporting Relationships

The Chief Executive Officer (CEO) reports to the Board of Directors of E.L.K. Reporting to this position as it relates to the LDC are the following:

- Director, Finance & Regulatory Affairs
- Operations Manager
- Administrative Assistant

Reporting to the Director, Finance & Regulatory Affairs is the Supervisor, Finance & Customer Service.

Reporting to the Operations Manager are the Foreman, Leadhand and Journeyman Lineman

2.2.5 **Orientation and Continuing Education:**

The E.L.K. Board receives education through Board Reports and Board Meetings. From time-to-time, external subject matter experts are utilized to assist with the education process. E.L.K. Board members, through their professional careers are also active in industry related issues and receive continuous education through this experience.

2.2.6 **Code of Conduct:**

There is no formal ethical code of conduct, although E.L.K. and its Board conducts itself with some rules and common sense approach ideas such as (i) respect for people, treating others as you would like to be treated (ii) providing a healthy and safe working environment (iii) working to the best of your ability and listing to customers and staff and acting in a professional manner.

2.2.7 **Planned Changes in Corporate and Operational Structure:**

E.L.K. is not planning any material changes to its corporate or operational structure.

2.2.8 Accounting Standards for Regulatory and Financial Reporting

The useful lives proposed by E.L.K. in this Application are consistent with the useful lives in the Kinetrics Report commissioned by the OEB dated July 8, 2010. E.L.K.'s accounting methodology change in this regard took effect January 1, 2013 and was approved by the Board in the Applicant's 2014 IRM (EB-2013-0123).

E.L.K. attests that it does not and will continue to not capitalize administration and other general overhead costs no longer permitted under IFRS, as clarified by the Board in its letter dated February 24, 2010. E.L.K. understands the need for comparability between distribution utilities.

Regulatory costs and the incremental one-time cost have been normalized by allocating one fifth of that total to the 2017 Test Year.

E.L.K. is not proposing other changes in methodology.

2.3 List of Specific Approvals Requested

In this proceeding, E.L.K. is requesting the following approvals as described in Appendix 2-A attached below as Appendix 1K:

1. Approval under Section 78 of the Ontario Energy Board Act, 1998 to charge distribution rates effective May 1, 2017 to recover a service revenue requirement of $4,513,093 which includes a revenue deficiency of $627,952 as detailed in Exhibit 6. The schedule of proposed rates is set out in Exhibit 8.

2. Approval of the Distribution System Plan as outlined in Exhibit 2.

3. Approval of revised low voltage rates as proposed and described in Exhibit 8.

4. Approval to adjust the Retail Transmission Rates – Network and Connection as detailed in Exhibit 8.

5. Approval to continue to charge Wholesale Market and Rural Rate Protection Charges approved in the Board Decision and Order in the matter of E.L.K.'s 2016 Distribution Rates (EB-2015-0064).

6. Approval to continue the Specific Service Charges and Transformer Allowance approved in the Board Decision and Order in the matter of E.L.K's 2016 Distribution Rates (EB-2015-0064).

7. Approval of the proposed loss factors as detailed in Exhibit 8.

8. Approval of the rate riders for a one year disposition of the Group 1 and Other Deferral and Variance Accounts as detailed in Exhibit 9.

9. Approval of the rate riders for a one year disposition of the Lost Revenue Adjustment Mechanism Variance Account ("LRAMVA") for lost revenue from 2011 to 2014 resulting from 2011 to 2014 IESO (formally OPA) programs as detailed in Exhibit 4.

10. Approval to continue to charge Hydro One Networks Inc. ('HONI'), the Embedded Distributor Rate class. HONI has been consulted. And Hydro One has stated that "it has reviewed the 2017 cost allocation model with respect to ELK's proposed Embedded Distributor rate class and has no concerns with the determination of costs allocated to the embedded distributor class."

The evidence for this proposal is provided in Exhibit 7.

11. To change the wording under specific service charges from Returned Cheque (plus bank charges) to Returned Item (Plus bank charges).

12. E.L.K. is applying to continue the current Specific Charges and Loss Factors as approved by the Board EB-2014-0067 and to change the wording under Specific charge for access to the power poles - $/pole/year (with the exception of wireless attachments). E.L.K. is not proposing a change to the dollar value, simply the wording as a general housekeeping item to make it more specific, and all inclusive. E.L.K.'s proposal is to rename this specific charge to Specific charge for all attachments to the power poles (including streetlighting attachments) $/pole/year (with the exception of wireless attachments).

13. E.L.K. is applying to increase the specific service charge for service call – customer owned equipment and service call – after regular hours to a more reasonable and actual cost amount for the work performed.

14. As outlined in Exhibit 9, E.L.K. is requesting approval for the disposition of Group 1, Account 1531 - Renewable Generation Connection Capital Deferral Account and Account 1568 - LRAM Variance Account in the amount of $1,952,598 owed by customers (i.e. Group 1 balances plus 1568) owed by customers. This includes an RSVA – Global Adjustment amount of $2,111,582 (i.e. Accounts 1589 and 1595) being owed to E.L.K. by Non-RPP customers only. It also includes $1,258,075 (i.e. Accounts 1580 and 1588) being owed to customers that are not wholesale market participants. The remaining amount of $1,099,091 (i.e. Accounts 1550, 1551, 1584, 1586 and 1568) is owed to E.L.K. by all customers. For rate mitigation purposes, E.L.K. is proposing a two year disposition period for the RSVA – Global Adjustment amount and one year disposition for all other Deferral and Variance Accounts. E.L.K. is not requesting any New Deferral and Variance Accounts. With regards to account 1531, the amount recorded in this account has been addressed by using the direct benefit and provincial benefit method outlined in Appendices 2-FA through 2-FC. These appendices form the mechanism to calculate the applied-for capital costs and the shares of total costs to be recovered from all Ontario ratepayers (i.e. the provincial benefit amount) and the E.L.K.'s customers (i.e. the direct benefit amount).

15. E.L.K. may request such other approvals as counsel for E.L.K. may submit and the Board may allow.

3.0 DISTRIBUTION SYSTEM OVERVIEW

As previously detailed, E.L.K. is a local distribution company serving more than 11,700 customers in the Towns of Essex, Lakeshore and Kingsville. Within these towns, which cover a large geographic area in Southwestern Ontario, E.L.K. has six non-contiguous service areas, serving the communities of Belle River, Comber, Cottam, Essex, Harrow and Kingsville.

Service Area:

	Description of the Applicant:
COMMUNITY SERVED:	Urban communities of Belle River, Comber, Cottam, Essex, Harrow and Kingsville
TOTAL SERVICE AREA:	22 sq. km
RURAL SERVICE AREA:	
DISTRIBUTION TYPE:	Electricity Distribution
SERVICE AREA POPULATION:	74,185
MUNICIPAL POPULATION:	21,874

A map of E.L.K.'s distribution service territory is provided in Appendix 1C.

3.1 Transmission or High Voltage Assets

E.L.K. does not have any transmission or high voltage assets (>50kV) deemed previously by the Board as distribution assets and does not have any such assets for which E.L.K. is seeking Board approval to be deemed as distribution assets in this application.

3.2 Host/Embedded Distributor

E.L.K. is a fully embedded distributor who receives electricity at distribution level voltages from Hydro One Networks Inc. Hydro One is also embedded to E.L.K.

E.L.K. possesses a separate embedded distributor class which was established in E.L.K. last cost of service proceeding (EB-2011-0099). There are no other embedded distributors in any other classes.

4.0 APPLICATION SUMMARY

Below, E.L.K. presents summarized information on the following key elements of its application:

A. Revenue Requirement

B. Budgeting and Accounting Assumptions

C. Load Forecast Summary

D. Rate Base and DSP

E. Operations, Maintenance and Administration Expense

F. Cost of Capital

G. Cost Allocation and Rate Design

H. Deferral and Variance Accounts

I. Bill Impacts

A. Revenue Requirement (Exhibit 6)

E.L.K. is requesting the approval of its proposed service revenue requirement of $4,513,093, which reflects a revenue deficiency of $627,952 which is shown in Table 1-3: Service Revenue Requirement.

Table 1-3 Service Revenue Requirement.

Service Revenue Requirement	2012 Approved (A)	2017 Revenue at Existing Rates Allocated in Proportion to 2012 Approved (B)	2017 Proposed (C)	Revenue Deficiency (D) = (C) - (B)
OM&A	2,448,972	2,554,197	3,509,396	955,199
LEAP	38	39	100	61
Property Tax	23,000	23,988	17,410	($6,578)
Depreciation	524,060	546,577	338,871	($207,706)
Return on Rate Base	658,613	686,911	647,316	($39,596)
PILs	70,403	73,428	0	($73,428)
Total	3,725,085	3,885,141	4,513,093	**627,952**
				Difference (D) = (C) - (A)
Rate Base	12,545,088		12,000,666	($544,423)

The major contributors to the increase are related primarily to increases in OM & A expenses and are fully discussed in Exhibit 4. The increases in OM & A are offset by decreases in depreciation and PILS resulting from changes in useful life of assets since 2013. This change lowers depreciation. Based on the projected load forecast and customer growth for the 2017 Test Year, E.L.K. has estimated a revenue deficiency of $627,952 based on its current rates. The computation of revenue deficiency is shown in Exhibit 6.

Therefore, E.L.K. seeks the OEB's approval to revise its electricity distribution rates. The rates proposed to recover its projected revenue requirement and other relief sought are set out in Exhibit 8 to this application.

The information presented in this application sets out E.L.K.'s forecasted results for its 2017 Test Year. E.L.K. is also presenting the historical actual information for fiscal years 2012, 2013, 2014, 2015 and forecasted results for the 2016 Bridge Year.

The main drivers of the revenue deficiency, as outlined in Exhibit 6 are:

- E.L.K. projecting two additional operational linemen in the Test year to assist with future succession planning.

- Cost increases from 2012 in order to maintain the overhead and underground system.

- Costs in 2017 for two additional office staff members within E.L.K. E.L.K. is planning for an addition of an engineering manager to assist the operations manager as well as a financial and regulatory analyst to assist with the ever increasing regulatory requirements.

- Costs incurred by E.L.K. for assistance in the preparation and support of this application.

However, the increases in OM&A are offset by decreases in depreciation and PILs resulting from changes in accounting policies. This change lowers depreciation and also lowers PILs since the tax adjustment for accounting depreciation, which increases PILs, is lower but the tax adjustment for capital cost allowance (i.e. deprecation for tax purposes), which reduces PILs, does not change with the change in depreciation.

The OM&A increase is also offset by a slightly lower return on rate base resulting from a lower rate base which is impacted by a lower working capital allowance of 7.5% in 2017.

The primary customer concerns, based on E.L.K.'s customer engagement efforts, include:

1. Affordable electricity costs;

2. Reliability of service with rapid response to un-planned outages;

3. Information supporting the value of services provided;

4. Assistance to reduce consumption and thereby costs;

5. Professional interactions with highly skilled and experienced personnel;

6. Communications through a variety of media including phone, internet, social media, in-person and email;

7. Proactive communications when there are un-planned outages;

8. Business to be customer centric including timely service that solves their problems; and

9. Continued delivery of high quality services.

E.L.K. is very aware of these concerns and has taken steps to address each of these concerns as further described in this Exhibit 1.

B. Budgeting and Accounting Assumptions

Developing E.L.K.'s budget is a key process as it identifies past successes as well as future initiatives and projections for capital and operating costs. E.L.K. used general inflation, prior year actuals and specific cost drivers for its 2016 Bridge Year and 2017 Test Year forecasts. Labour costs reflect the annual wage rate adjustments that E.L.K. is required to pay under its collective agreement for its unionized employees. For non-unionized employees, the labour cost forecast is largely driven by increases that reflect market competitive compensation. In conjunction with known or planned requirements, E.L.K. reviews its process through a benefit – risk lens for new, large and key budget items. Benefits include the additional capability, service being added and risk include that without some of the desired purchases and hires for example in 2017, required or desirable outcomes would be absent. All assessments are made through informed decision making points that are also guided by E.L.K.'s customer feedback received, whether verbal, in writing or through formal surveys, as well as through the understanding of the OEB's RRFE objectives. E.L.K. took into consideration the survey results that were generated as part of the budgeting process of OM & A and capital costs throughout this COS application. With respect to E.L.K.'s weather normalized load forecast, it is developed in a three-step process. First, a total system weather normalized purchased energy forecast is developed based on multivariate regression model that incorporates variables that impact energy usage. Second, the weather normalized purchased energy forecast is adjusted by a historical loss factor to produce a weather normalized billed energy forecast. Finally, the forecast of billed energy by rate class is developed based on a forecast of customer numbers and historical usage patterns per customer.

Both the 2016 Bridge and 2017 Test Years have been compiled using the MIFRS method of presentation. E.L.K. reviewed and changed the overhead capitalization policy in fiscal 2013;

therefore no other change affecting capitalization of overhead costs is required during the transition to MIFRS:

E.L.K. compiles budget information for the three major components of the budgeting process:

1. revenue forecasts;
2. operating, maintenance and administration (OM&A); and
3. capital costs under the RRFE categories
    1. System access
    2. System renewal
    3. System service
    4. General plant

E.L.K.'s budget is prepared annually by management and is reviewed and approved by E.L.K.'s Finance Committee and subsequently by the E.L.K. Board of Directors. The budget is prepared and approved in Q1 of each year. Once approved, it does not change and provides a plan against actual results.

1) Revenue

a) During a COS and IRM period, E.L.K. prepares the revenue forecast using the most recent approved rates and the load forecast methodology provided in Exhibit 3. Other revenues are viewed on an item-by-item basis and are either based on a historical indicator or on future strategic initiatives.

2) Operating Maintenance and Administration Expense

The OM&A costs presented in Exhibit 4 are the result of a business planning and work prioritization process that ensures that the most appropriate, cost effective solutions are put in place. The budgeting process used to determine the OM & A budget involves the following steps:

a) Detailed expenses for prior two years are analyzed.

b) Staffing levels are based on the estimated time required to complete the work plans.

c) Outside expenses for all department budgets are built based on analysis including previous years actual information, current year forecast, known changes in external costs, and changes in departmental activities or responsibilities in response to new legislation/regulations or industry activities.

d) Regulatory costs for this application and other one-time costs have been normalized over the five year life of the application.

e) Material variances in spending from prior years are explained.

f) The Director, Finance & Regulatory Affairs, together with the Operations Manager prepares a total labour budget using projected wage and benefit cost. Overtime and account distribution are based on previous years actual.

The Director, Finance & Regulatory Affairs compiles all forecasted OM&A expenditures to compare the total projected expenditures and review year over year significant variances.

3) Amortization

a) Amortization has been calculated based on the revised useful lives and on a MIFRS basis.

4) PILs

a) Regulatory PILS have been calculated using the Board Approved model.

5) Capital

The forecasted capital budget is influenced, among other factors, by E.L.K.'s capacity to finance capital projects. All proposed capital projects are assessed within the framework of its capital budget priority as outlined in The Distribution System Plan and are consistent with the Asset Management planning process.

a) The capital budget was formulated on a project by project basis.

b) System Access investments are driven by third parties such as customers and other authorities. These project requirements are dependent on developments and growth within E.L.K.'s territory. E.L.K. coordinates with third parties and prospective developers as described in Exhibit 2 when preparing the budget. The majority of the projects receive significant funds from customer contributions.

c) For system renewal projects, E.L.K. reviews condition assessments and potential impact on reliability in coordination with investment projects driven externally, and capital budget expenditures, prioritizing investments based on asset condition evaluations along with review of annual maintenance to determine short and long term needs for asset replacements and renewals.

d) General Plant projects are assessed and evaluated on an individual basis. Material investments are planned well in advance.

Unplanned capital expenditures do occur and are brought to E.L.K.'s Board of Directors for approval.

The Distribution System Plan presented in Exhibit 2 describes the capital and maintenance programs needed to maintain and enhance the reliability of E.L.K.'s distribution system.

C. Load Forecast Summary (Exhibit 3)

E.L.K.'s load forecast is weather normalized and considers factors such as historical power purchased load, weather, calendar related factors and the usage of the embedded distributor. As outlined in Exhibit 3, E.L.K. has used the same regression analysis methodology approved by the Board in its E.L.K. cost of service application (EB-2011-0099). The regression analysis was conducted on historical electricity purchases to produce an equation that will predict weather normalized power purchases in 2017. The weather normalized purchased energy forecast is adjusted by a historical loss factor to produce a weather normalized billed energy forecast which is allocated to rate class using historical billing data by rate class.

Based on the load forecast methodology, the total billed 2017 Test Year kWh forecast is 229,752,894 which is a 4.5% decrease over the E.L.K. Board Approved kWh forecast of 240,658,928. The 2012 forecast of 240,658,928 was never achieved, on a weather normal basis from 2012 to 2015. As a result, the 2017 forecast has been developed to be more in line with weather normal results from 2012 and 2015 along with an adjustment for CDM to reflect the expected results from 2016 and 2017 programs in 2017.

The 2017 forecast of customers by rate class was determined using a geometric mean analysis for the Residential and General Service < 50 kW rates classes. The customer/connection forecast for all other classes was maintained at the 2015 level. The expected number of customers/connections for the 2017 Test Year is 14,600 which is a 3.0% increase over the 2012 E.L.K. Board Approved customers/connections of 14,176.

D. Rate Base and DSP (Exhibit 2)

E.L.K. has calculated its 2017 Test Year rate base to be $ 12,000,666. This rate base is also used to determine the proposed Revenue Requirement found at Exhibit 6. Table 1-4 illustrates E.L.K.'s Rate Base Calculations for the Test Year.

Table 1-4: 2017 Test Year Rate Base

	MIFRS
Particulars	**2017**
Net Capital Assets in Service:	
Opening Balance	9,439,589
Ending Balance	10,124,792
Average Balance	9,782,191
Working Capital Allowance	2,218,475
Total Rate Base	**12,000,666**

	MIFRS
Expenses for Working Capital	**2017**
Eligible Distribution Expenses:	
Distribution Expenses - Operation	642,274
Distribution Expenses - Maintenance	900,026
Billing & Collecting	598,394
Community Relations	11,822
Administrative & General Expenses	1,356,881
Donations - LEAP	100
Taxes othan than Income Taxes	17,410
Less Allocated Depreciation	- 42,396
Total Eligible Distribution Expenses	3,484,511
Power Supply Expenses	26,095,158
Total Expenses for Working Capital	**29,579,669**
Working Capital factor	7.50%
Total Working Capital Allowance	2,218,475

E.L.K. has provided its rate base calculations for the years 2012 Board Approved, 2012 Actual, 2013 Actual, 2014 Actual, 2015 Actual, 2016 Bridge Year and 2017 Test Year in Table 2-2 below:

Table 1-5 - Summary of Rate Base

Particulars	2012 Board Approved	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Bridge	2017 Test
Net Capital Assets in Service:							
Opening Balance	9,211,176	7,655,503	8,812,349	8,059,927	8,089,087	8,657,686	9,439,589
Ending Balance	9,225,970	7,136,501	8,059,927	8,089,087	8,657,686	9,439,589	10,124,792
Average Balance	9,218,573	7,396,002	8,436,138	8,074,507	8,373,387	9,048,638	9,782,191
Working Capital Allowance	3,326,515	2,601,096	2,850,295	4,111,993	3,935,807	3,507,893	2,218,475
Total Rate Base	**12,545,088**	**9,997,098**	**11,286,433**	**12,186,500**	**12,309,194**	**12,556,531**	**12,000,666**

The Rate Base for the 2017 Test Year has been forecasted to decrease $555,865 (5.0%) over the 2016 Bridge Year. Furthermore, the Rate Base for the 2017 Test Year has been forecasted to remain relatively neutral over the last Board Approved Rate Base. The reasons for the variance between the 2017 Test Year and 2012 last Board Approved is mainly attributed to:

- The decrease in the working capital allowance rate that has reduced the Rate Base. The decrease is mainly attributed to the decrease in the working capital rate of 7.5% from 12% as approved during E.L.K.'s 2012 COS.

- Annual changes in cost of power and increases in OM & A expenses. E.L.K. has forecast an increase in Power Supply Expenses and eligible distribution expenses since the last Board Approved Rate.

- The average net capital asset in service has also increased. The main drivers behind this is the decrease in useful lives which results in a decrease in depreciation expense as well as the increased investment back into the distribution system.

E.L.K. has provided a summary of its calculations of the cost of power and controllable expenses used in the calculations for determining working capital for the years 2012 Board Approved, 2012 Actual, 2013 Actual, 2014 Actual, 2015 Actual, 2016 Bridge Year and 2017 Test Year in Table 1-6 below. Further details of E.L.K.'s calculation of its cost of power calculations are provided Exhibit 2.

Table 1-6 - Summary of Working Capital Calculation

Expenses for Working Capital	2012 Board Approved	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Bridge	2017 Test
Eligible Distribution Expenses:							
Distribution Expenses - Operation	291,000	272,543	233,391	260,055	263,090	365,280	642,274
Distribution Expenses - Maintenance	455,000	604,288	491,922	546,411	939,207	918,809	900,026
Billing & Collecting	775,064	564,380	582,646	587,255	527,861	554,193	598,394
Community Relations	10,000	16,790	10,391	5,499	- 12,807	- 3,654	11,822
Administrative & General Expenses	917,946	724,931	836,495	823,367	876,245	1,126,226	1,356,881
Donations - LEAP	-	50	25	20,150	125	100	100
Taxes othan than Income Taxes	23,000	21,300	-	22,572	20,769	5,000	17,410
Less Allocated Depreciation	-	- 84,683	- 68,344	- 70,142	- 45,890	-	- 42,396
Total Eligible Distribution Expenses	**2,472,010**	**2,119,599**	**2,086,526**	**2,195,167**	**2,568,600**	**2,965,954**	**3,484,511**
Power Supply Expenses	25,248,949	19,556,199	21,665,931	32,071,440	30,229,790	26,266,484	26,095,158
Total Expenses for Working Capital	**27,720,959**	**21,675,798**	**23,752,457**	**34,266,607**	**32,798,390**	**29,232,438**	**29,579,669**
Working Capital factor	12%	12%	12%	12%	12%	12%	7.50%
Total Working Capital Allowance	**3,326,515**	**2,601,096**	**2,850,295**	**4,111,993**	**3,935,807**	**3,507,893**	**2,218,475**

Summary of the Major Drivers of the Distribution System Plan

In creating the Distribution System Plan (the "DSP" as attached in Exhibit 2), E.L.K. has applied its overarching corporate goals, which are to distribute electricity safely and reliably with the highest operating efficiency to provide good value service and provide the shareholder the full regulated return on equity. To meet these goals, E.L.K. developed protocols and strategies to ensure optimized and efficient planning. Optimal operation of the distribution system is achieved when "right sized" investments into renewal, replacement (capital investments) and into asset repair, rehabilitation and preventative maintenance are planned and implemented. Therefore, the DSP and E.L.K.'s Capital Expenditure Plan seeks to find the right balance between capital investments in new infrastructure and operating & maintenance costs so that the combined total cost over the life of the asset is minimized.

E.L.K.'s DSP is focused on:

- System renewal and expansion
- Customer connections
- Renewable generation connections
- Regional planning

E.L.K.'s DSP builds on E.L.K.'s Distribution Asset Management Plan that was submitted for the last rebasing application in 2012. The DSP is a first generation plan which will evolve over time. 2016 and 2017 capital budgets have been prepared based on identified projects which are required to sustain and enhance the distribution system. As is demonstrated in the DSP as well as the remainder of this summary, E.L.K. is forecasting capital spending will increase for the

2017 year and through 2018 to 2021. E.L.K. has budgeted strategically for a more levelized spending pattern. The average change in spending is 1.0% over the forecast period and if 2019 is eliminated the average increase over the period from 2017 to 2021 is 3.0%. These capital expenditures are spread out over four categories (as seen in Table 1-7 below): System Renewal, System Access, System Service and General Plant.

Table 1-7
Proposed Capital Investment
2017 to 2021

	2017	2018	2019	2020	2021	Total	Average
System Access	560,210	677,053	693,979	711,329	729,112	3,371,683	674,337
System renewal	261,793	295,149	459,279	476,214	301,272	1,793,707	358,741
System Service	-	-	-	-	-	-	-
General Plant	491,500	457,000	202,000	177,000	337,000	1,664,500	332,900
Total Expenditure	1,313,503	1,429,202	1,355,258	1,364,543	1,367,384	6,829,890	1,365,978
Percentage Change from Previous Year		9%	-5%	1%	0%		1%
Percentage Change Not Including 2017			-5%	1%	0%		-1%

Capital Expenditures Requested for the 2017 Test Year

Significant System Renewal capital projects for the 2017 Test Year include:

Underground Rejuvenation -Augustine. This reconstruction project includes the replacement of 14 pad-mounted transformers and the replacement of the existing direct-buried primary distribution system with a new underground distribution system in duct. One of the existing transformers has been replaced due to failure in 1992 and the remaining original transformers have an average age of 45.5 years. The existing underground primary cable is direct buried, was installed in 1971 and is 46 years old. Cable faults in direct buried cable result in higher costs to locate and repair faults. E.L.K.'s practice is to install all underground primary conductors in duct.

Significant System Access capital projects for the 2017 Test Year are the number of customer attachments and load, which is different for each specific project within the program. This information is not available at this time. In a typical year, E.L.K. will make approximately 6 expansions to lines that can affect in excess of 100 of new customers, predominantly residential, of approximately 2kVA-1.5mVA in size. (E.L.K. completed a total of 29 expansions of which 9 were to supply residential subdivisions in 2012, 2013, 2014 and 2015.)

E.L.K. does not have any planned or budgeted System Service capital projects for the 2017 Test Year.

In the category of General Plant, E.L.K. will invest approximately $445,000 as part of a continued investment into its motor fleet. Specifically, E.L.K. proposes to replace its Truck 303 which is a large radial boom derrick truck that includes a 44.5' reach boom with auger. It is a 1995 that was purchased in 1995. By 2017 it will be 22 years old which is well beyond normal life expectancy for large trucks in our fleet. Due to changing needs in the department, Truck 303 will be replaced with another radial boom derrick truck with an extended reach of 52'.

Summary of Any Costs Requested for Renewable Energy Connections/Expansions, Smart Grid, and Regional Planning Initiatives

E.L.K. uses a comprehensive approach to its distribution system planning which includes all categories of investments including system renewal and expansion, renewable generation connection, smart grid development initiatives, and regional planning as required. This comprehensive approach ensures the investments made by E.L.K. are efficient and that they support the goals identified by the Board in the Filing Requirements.

Renewable Energy Investments

E.L.K.'s distribution system has been planned and has been proactively built and equipped to handle forecasted renewable generation. E.L.K. is aware of the capacity of its feeders to accept generation and current constraints are either maximum feeder capacity or supplier issue. On this basis, E.L.K. is not proposing any material capital investments for capacity upgrades on its distribution system to accommodate the applications for the connection of any renewable energy generation plant. E.L.K. has not included any specific costs for Renewable Energy Investments in its capital plan.

Smart Grid Initiatives

E.L.K. does not have any smart grid initiative costs being requested within this COS application.

Regional Planning

In preparing its Distribution System Plan, E.L.K. requested a letter from Hydro One confirming the status of regional planning for the "Windsor-Essex" regional planning areas in which E.L.K. is located. A Regional Infrastructure Plan and an Integrated Regional Resource Plan have been completed for E.L.K.'s service territory. E.L.K. will incorporate future capital expenditure planning processes and future rate applications as necessary. E.L.K. has not included any specific costs for Regional Planning investments in its capital plan.

Total Amount Sought to be recovered from Ratepayers for Renewable Energy Connection Costs

E.L.K. is requesting that an amount totalling $176,493 is to be recovered with respect to Renewable Energy Connection Costs. This is further supported in Appendix 2FA.

E. Operations, Maintenance and Administration Expense (Exhibit 4)

E.L.K. is proposing recovery through distribution rates of $3,509,397 in Operating, Maintenance and Administration (OM&A) costs for the 2017 Test Year.

OM&A expenditures in the 2017 Test Year of $3,509,397 represent an increase of $1,060,387 or 43% over the 2012 Board Approved OM&A expenditures of $2,449,010. The following Table 1-8 summarizes the changes.

Table 1-8: OM&A for 2012 Board Approved and 2017 Test Year.

	Summary of OM & A Expenses		
Description	**2012 Test Year**	**2017 Test Year**	**Variance from Board Approved**
Operations	$ 291,000	$ 642,274	$ 351,274
Maintenance	$ 455,000	$ 900,026	$ 445,026
Billing & Collecting	$ 775,064	$ 598,394	$ (176,670)
Community Relations	$ 10,000	$ 11,822	$ 1,822
Administrative & General Expense	$ 917,946	$1,356,881	$ 438,935
Total OM & A Expense	$2,449,010	$3,509,397	$1,060,387
Percentage change (year over year)		43%	

The proposed OM&A expenditures for the 2017 Test Year have been derived through a detailed budgeting and business planning process aligned to meet E.L.K.'s core business objectives. These expenditures are required to allow E.L.K. to maintain and provide improved value upon the distribution business service quality and reliability standards in compliance with the Distribution System Code and other regulatory bodies (IESO, Ministry of Energy, ESA, etc.), as well as the value our customer's receive. The OM&A costs in the 2017 Test Year reflect the resourcing mix and investments required to meet customer and broader public policy. Without these resources and investments, E.L.K. will struggle to meet customers increased expectations, future workloads and better service E.L.K. is planning for our customers.

E.L.K. used a general inflationary rate of approximately 2% where the expense increase could not be specifically identified for non-wage related expenses, which is reasonable considering Canada economics is predicting inflation to increase to 2.9% by 2020. Inflationary impacts are not material enough to be identified separately.

Provided below In Table 1-9 is the total compensation for the test year as well as the last OEB approved.

Table 1-9 Total Compensation Test Year and 2012 OEB Approved

	Last Rebasing Year - 2012- Board Approved	2017 Test Year	Difference	%AGE
Total Compensation (Salary, Wages, & Benefits)				
Management (including executive)	$ 422,400	$ 788,305	$ 365,905	
Non-Management (union and non-union, directors and retirees)	$1,252,146	$1,542,717	$ 290,571	
Total	$1,674,546	$2,331,022	$ 656,476	39%

The increased primarily relates to the two additional operational linemen in the Test Year to assist with future succession planning, and two additional office staff members within E.L.K. E.L.K. is planning for an addition of an engineering manager to assist the operations manager as well as a financial and regulatory analyst to assist with the ever increasing regulatory requirements.

E.L.K. has experienced some significant changes in its business environment since the last Cost of Service application in 2012 as described in Exhibit 4. Customer expectations have changed. Also, E.L.K. has had to adapt to, respond to and/or implement multiple provincial policies as described in Exhibit 4. E.L.K.'s business has changed as a result, but customer service still needs to be at the forefront, as this is what truly adds value to the customer. E.L.K.'s customer service supervisor is continuing to assist with both financial and regulatory requests which have taken away from the customer service priority. E.L.K. is planning on relieving some of these duties to E.L.K.'s new member additions.

F. Cost of Capital (Exhibit 5)

E.L.K. has prepared its Application in accordance with the Board's guidelines provided in the Report of the Board on Cost of Capital for Ontario's Regulated Utilities (the "Cost Report") issued on December 11, 2009. For the purposes of preparing this Application, E.L.K. has used the cost of capital parameters issued by the Board on October 15, 2015 for 2016 cost of service rate applications for rates with effective dates in 2016. E.L.K. acknowledges that the Board will issue updated cost of capital parameters. E.L.K. will update its cost of capital parameter to reflect the Board issued cost of capital parameters for rates with effective dates in 2017 at a later date, as E.L.K.'s COS was in the final review stages when received. E.L.K. proposes no deviation from the Board's cost of capital methodology.

G. Cost Allocation and Rate Design (Exhibit 7)

E.L.K. has not deviated from the Board's cost allocation and rate design methodology.

Cost Allocation

The data used in the updated 2017 cost allocation study is consistent with E.L.K.'s cost data that supports the proposed 2017 revenue requirement outlined in this Application. The breakout of assets, capital contributions, depreciation, accumulated depreciation, customer data and load data by primary, line transformer and secondary categories were developed from the best data available to E.L.K. from its engineering records, and its customer and financial information systems.

As shown in Table 1-10, the resulting 2017 cost allocation study indicates the revenue to cost ratios for Street Lights and the Embedded Distributor are outside the Board's range. For 2017, it is proposed the ratio for Street Lights be set at 120% and the ratio for the Embedded Distributor is set at 100%. The General Service < 50 kW, General Service > 50 kW, Sentinel Lights and Unmetered Scattered Load rate classes would be adjusted upward to maintain revenue neutrality.

Table 1-10: Revenue to Cost Ratios.

Rate Class	2012 Board Approved Cost Allocation Study with New CGAAP Depreciation	2017 Updated Cost Allocation Study	2017 Proposed Ratios	2018 & 2019 Proposed Ratios	Board Targets Min to Max	
Residential	98.0%	103.8%	103.8%	103.8%	85.0%	115.0%
General Service < 50 kW	95.0%	75.7%	91.2%	91.2%	80.0%	120.0%
General Service > 50 kW	120.0%	90.5%	91.2%	91.2%	80.0%	120.0%
Street Lights	95.0%	161.5%	120.0%	120.0%	80.0%	120.0%
Sentinel Lights	95.0%	75.2%	91.2%	91.2%	80.0%	120.0%
Unmetered Scattered Load	95.0%	72.8%	91.2%	91.2%	80.0%	120.0%
Embedded Distributor	100.0%	219.6%	100.0%	100.0%	85.0%	115.0%

Rate Design

Except for the Residential and Embedded Distributor classes, E.L.K. proposes to maintain the fixed/variable proportions assumed in the current rates to design the proposed monthly service charges.

In regards to the Residential class, on April 2, 2015, the OEB released its Board Policy: A New Distribution Rate Design for Residential Electricity Customers (EB-2012-0410), which stated that electricity distributors will transition to a fully fixed monthly distribution service charge for residential customers. This will be implemented over a period of four years, beginning in 2016. In 2016 E.L.K. implemented the first year movement of this policy. In 2017, E.L.K. proposes to implement the second year of this policy.

Regarding the Embedded Distributor class, as outlined Exhibit 7, E.L.K. consulted with HONI on July 8, 2016 in regards to the cost allocation for the Embedded Distributor class. HONI suggested that fully fixed charge would be appropriate for this class to reduce the administrative cost of dealing with a monthly fixed charge and a volumetric charge. As a result, the monthly fixed charge for the Embedded Distributor class has been set at 100% of revenue to be collected from this class.

Table 1-11 outlines a comparison between the 2016 current and the 2017 proposed distribution rates.

Table 1-11: Distribution Charges.

Rate Class	Monthly Service Charge 2016 Current	Monthly Service Charge 2017 Proposed	Monthly Service Charge % Difference	Unit of Measure	Distribution Volumetric Charge 2016 Current	Distribution Volumetric Charge 2017 Proposed	Distribution Volumetric Charge % Difference
Residential	$13.33	$17.65	32.4%	kWh	$0.0062	$0.0049	(21.0%)
General Service < 50 kW	$15.77	$23.25	47.4%	kWh	$0.0050	$0.0074	48.0%
General Service > 50 kW	$187.07	$224.18	19.8%	kW	$1.5827	$1.8772	18.6%
Street Lights	$1.17	$1.01	(13.7%)	kW	$11.4381	$9.8880	(13.6%)
Sentinel Lights	$3.13	$4.62	47.6%	kW	$5.8898	$8.6956	47.6%
Unmetered Scattered Load	$6.41	$9.84	53.5%	kWh	$0.0019	$0.0029	52.6%
Embedded Distributor	$1,849.67	$1,218.25	(34.1%)	kW	$0.2751	$0.0000	(100.0%)
Transformer Discount				kW	($0.60)	($0.60)	0.0%

H. Deferral and Variance Accounts (Exhibit 9)

As outlined in Exhibit 9, E.L.K. is requesting approval for the disposition of Group 1, Account 1531 - Renewable Generation Connection Capital Deferral Account and Account 1568 - LRAM Variance Account in the amount of $1,952,598 owed by customers (i.e. Group 1 balances plus 1568) owed by customers. This includes an RSVA – Global Adjustment amount of $2,111,582 (i.e. Accounts 1589 and 1595) being owed to E.L.K. by Non-RPP customers only. It also includes $1,258,075 (i.e. Accounts 1580 and 1588) being owed to customers that are not wholesale market participants. The remaining amount of $1,099,091 (i.e. Accounts 1550, 1551, 1584, 1586 and 1568) is owed to E.L.K. by all customers. For rate mitigation purposes, E.L.K. is proposing a two year disposition period for the RSVA – Global Adjustment amount and one year disposition for all other Deferral and Variance Accounts. E.L.K. is not requesting any New Deferral and Variance Accounts. With regards to account 1531, the amount recorded in this account has been addressed by using the direct benefit and provincial benefit method outlined in Appendices 2-FA through 2-FC. These appendices form the mechanism to calculate the applied-for capital costs and the shares of total costs to be recovered from all Ontario ratepayers (i.e. the provincial benefit amount) and the E.L.K.'s customers (i.e. the direct benefit amount).

I. Bill Impacts

In preparing this application, E.L.K. has considered the impacts on its customers, with a goal of minimizing those impacts. Table 1-12 provides a summary of total bill impacts ($ and %) for typical customers in all rate classes. These impacts reflect E.L.K's proposal for a two year disposition period for the RSVA – Global Adjustment amount. This rate mitigation strategy allows all classes to have a total bill impact of less than 10%.

Table 1-12: Total Bill Impacts

Rate Class	Monthly kWH	Monthly kW	$ Change	% Change
Residential	750		$7.93	5.9%
General Service < 50 kW	2,000		$24.72	7.2%
General Service > 50 kW	55,000	170	$801.83	8.2%
Street Lights	70	0.2	$0.28	2.0%
Sentinel Lights	70	0.2	$1.30	9.9%
Unmetered Scattered Load	700		$7.73	6.4%
Embedded Distributor	1,000,000	2,000	($4,775.54)	(2.9%)

Incorporated in the overall monthly bill impact is the effect of the following major components of the electricity bill:

- Distribution rates (monthly service charge and volumetric rates);
- Disposition of deferral and variance accounts:
- Revised Retail Transmission rates;
- Wholesale Market Service rates; and
- Loss Factors.

5.0 CUSTOMER ENGAGEMENT:

The Report of the Board, RRFE: A Performance Based Approach (the “RRFE Report”) contemplates enhanced engagement between distributors and their customers to provide better alignment between distributor operational plans and customer needs and expectations. E.L.K. always has, and always will, focus on its customers by striving to provide superior service to its customer base, because this is what adds value to our customers. E.L.K. is also becoming more customer centric by investing in new capabilities, programs, and technologies that allow us to communicate more effectively and efficiently with our customers. In this section, E.L.K. has provided an overview of customer engagement activities that it has undertaken with respect to its daily operations and illustrates how customer feedback has been used to continually improve the customer experience.

Customer preferences and behaviours are ever changing and that means that the utility must adapt and transform as well. E.L.K. understands it must be seen as accessible, responsive, accountable, transparent and trustworthy. A customer centric focus with an emphasis on lowering costs must be a priority. This is in keeping with the requirements of the RRFE which contemplates enhanced engagement between distributors and their customers to better align a distributor's operational plans with its customers' needs and expectations.

E.L.K. has recently focused a great deal of effort in engaging customers to better understand their needs, insight into customer needs and preferences. For example, this was recently done through E.L.K.'s survey by the consultant Oracle Poll. This is found in Appendix 1D.

E.L.K.'s method of engaging customers includes the following:

Engaging Customers- Methods

1. Telephone- Call centre
    - Inbound calls
    - Outbound calls
    - Call-in Messaging
2. E-mails
    - Inbound
    - Outbound
3. Letters
    - Mailed inserts and letters notifying customers of new initiatives as well as hand – delivered letters to customers who will be impacted by planned outages
4. Website
5. Bills
    - Paper/electronic bills
    - Bill messages, envelope messages
    - Bill inserts
6. Surveys
7. Face-to-Face
    - Interactions with staff, one on one or group settings

- Customer meetings with Key staff
- Information sessions for specific customer segments (i.e. Low Income)

8. Community Outreach Activities
   - Booths at community events
   - Displays at local retail stores
   - Presentations to community groups
   - School presentations- electrical safety and conservation presentations
9. Media releases and information alerts
10. Advertising
    - Newspaper, radio
11. In Office displays
    - Customer Engagement and Customer Satisfaction- Evaluating Past Performance

5.1 Formal Customer Engagement Surveys

As part of the preparation for E.L.K.'s Cost of Service Rate application, E.L.K. commissioned Oraclepoll Research Ltd. to conduct a telephone satisfaction survey of its customers as well as data pertaining to E.L.K.'s distribution system plan. In this survey, a total of 300 respondents were interviewed. The survey was conducted using computer-assisted techniques of telephone interviewing (CAITI) and random number selection. The margin of error for the 300 person survey was +- 5.6%. Overall, customers indicated a high level of satisfaction with reliability and service, with an 88% satisfactory rating.

Some primary issues identified through E.L.K.'s customer engagement included:

- Impact of rate increases and lower costs in general
- General Awareness
- Reliability of Service

The report on the survey and results conducted by Oraclepoll Research Ltd can be found in Appendix 1D.

Below is a summary of its key findings/conclusions

1. Executive Summary/Overall Satisfaction

88% of customers provided a combined good or very good or satisfactory response to overall satisfaction compared to only 12% that accorded a poor or very poor score.

2. Comparative Customer Service

E.L.K. fared well in the comparative customer service rating category as 84% rated the LDC as good, very good and satisfactory, compared to only 9% as poor.

3. Price of Electricity – Satisfaction

Approximately half or 51% of customers are satisfied with the price that they pay for electricity while the other half of respondents are dissatisfied.

3. Energy Bills

There appears to be a high awareness of the fact that E.L.K. accounts for only about 15% of the bill that customers receive as evidenced by the 57% that said yes to the following question "Were you aware that your local utility E.L.K. only accounts for approximately 15% of your electricity bill and the remaining 85% relate to transmission, generation and other administrative costs out of its control?" A total of 36% were unaware and 7% did not know or were unsure.

4. Overall Value

Despite the dissatisfaction with the price customers pay for electricity, a majority of customers are satisfied with the overall value that E.L.K. provides in the context of the 15% portion of the electricity bill that the LDC represents. A total of 75% are satisfied while 11% are not, and 14% did not know.

5. Customer Service Statements

E.L.K. rated very highly in terms of the level of agreement provided for each of the two customer service areas. A very strong 83% agreed or strongly agreed that the utility provides customers with reliable and good service and 82% agreed that E.L.K. meets its commitment to customers.

6. Performance Ratings – Reliability and Outages

E.L.K. rated strong for providing a reliable power supply at 78%, followed by 62% that gave the utility a good or very good score for promptly responding to outages. On the prompt response to outages indicator, only 15% accorded a negative rating of poor or very poor, 10% a satisfactory score, but 13% did not know nor had no opinion.

Satisfaction results were lower in the areas of communicating with customers about planned interruptions at 49% and especially for effectively scheduling planned outages at 42%.

Negative ratings were also higher in these two areas (24% and 21% respectively) and a high number of customers were unaware of the LDC's role or performance. A total of 26% were unsure how effective E.L.K. is at scheduling outages and 19% did not know how effective they are at communicating with customers about planned outages.

7. Price Balance

Most customer responses fell in the middle where they would prefer a balance between rates and the number of outages (47%). Only 9% said that they would want higher rates with potentially fewer outages, with 5% preferring the highest rates and lowest possible outages and 4% higher rates and fewer outages. A total of 29% would prefer lower rates tolerating occasional outages, with 22% preferring lower rates with potentially occasional outages and 7% the lowest rates with the possibility of frequent outages.

8. Communication Rating

Results are mixed on the issue of communicating with customers and the methods used as 50% provided a total good rating, 11% a poor one 18% gave the utility a satisfactory grade and 22% either said they had no experience in this area or did not know.

9. Rating Bill Inserts

Most or 62% had a favorable opinion (good & very good) of bill inserts or electronic bill links, while a lesser 14% had an unfavorable opinion (poor or very poor). A total of 16% gave bill inserts a satisfactory grade and 6% said that they had no experience with bill insets or links and 3% did not know.

10. OEB and Regulation of Rates

A 72% majority claimed to be aware of the role of the OEB in regulation energy prices, 18% were unaware and 11% were unsure.

11. Capital Expenditure Plan – Support

More than three-quarters majority or 76% (n=229) support the plan recommended by E.L.K.'s Operations Department. A very low 3% (n=10) of customers do not support this plan while two in ten (n=61) have no opinion on this issue (8%) or are unsure (12%).

12. Capital Expenditure Plan – Rates

Presented with the scenario of increased rates under the plan, 57% would still support it with 18% fully backing it and 39% if the rise in price is modest. A total of 29% do not support the bill increases even if it would result in more and longer outages.

13. Operations and Maintenance Plan – Support

Support for the operations and maintenance plan is high at 77% with opposition very low at 3%, while 20% did not know.

14. Operations and Maintenance Plan – Rates

Support for the operations and maintenance plan is still high at 69% even with the prospect of increased monthly bills. A total of 22% fully support the initiative and 47% would be behind it if rate increases were modest. There are 21% that do not support the plan even if customer service would be improved and 10% were undecided.

E.L.K. also allowed for comments from the participants in the survey. Primarily with respect to customer service, 42% did not know or were unsure of what the utility could do better to service customers and 5% claimed that nothing more was needed. 32% suggested to lower rates while other suggestions mentioned having better communication, repairing or maintaining power lines, having fewer outages, quicker responses to outages, being quicker on service calls, explaining their bills and providing more reliable service in winter months.

It is important for E.L.K. to implement some Customer Service Strategies that will allow E.L.K. to respond to customer concerns brought forth. Some suggestions for actions that could be taken to improve the customer experience include:

- Increasing Energy Understanding- Regarding Bills
- Improving Customer Communication
- Improving Outage Reporting
- Engaging the use of social media

Customers want service through a variety of channels including telephone, in-person, email, over the web and social media.

Customers also want information immediately, particularly regarding system status during outages. E.L.K. has responded by developing a web based application and preparing to use social media to provide updates.

In terms of service quality, E.L.K. has always maintained the highest standards possible. In a regulatory environment, there are numerous Service Quality Requirement targets that a utility must achieve. E.L.K. consistently meets and exceeds these targets. In terms of customer satisfaction, E.L.K. has always strived for strong customer relations and increased customer engagement within the community. In terms of customer engagement, E.L.K. has numerous methodologies, by which it engages its customers. As a local small utility, E.L.K. prides itself on customer service. With some of its employees and Board Directors living in the service area, it means that customer concerns are communicated quite easily just by interaction. E.L.K. is proud that it has an office location that is open five days a week during business hours that customers have access to E.L.K. employees to answer questions or to raise concerns. For example, the use of Smart Meter data has allowed customer service representatives review consumption patterns with customers and assist with managing their electricity bills.

The primary customer concerns, based on E.L.K.'s customer engagement efforts, include:

1. Affordable electricity costs;
2. Reliability of service with rapid response to un-planned outages;
3. Information supporting the value of services provided;
4. Assistance to reduce consumption and thereby costs;
5. Communications through a variety of media including phone, internet, social media, in-person and email;
6. Proactive communications when there are un-planned outages;
7. Business to be customer centric including timely service that solves their problems; and
8. Continued delivery of high quality services.

E.L.K. is very aware of these concerns and has taken note to further address each of these concerns as described in this Exhibit as well as in Exhibit 4.

Some of our current initiatives to maintain or improve our level of customer engagement are outlined over the next few pages.

- E.L.K. remains one of the most affordable LDCs in the province of Ontario. But focusing on efficiencies E.L.K. can maintain low rates for its customers. However, E.L.K. does not believe in "low rates at all cost". This Application represents a prudent balance between this push for lower rates, and what is necessary to continue to deliver high quality service and meet all regulatory obligations.

- 13,286 inbound phone calls were answered by E.L.K. customer service staff on various topics of concern to customers including account information, services such as eBilling, TOU rates, outages, conservation programs, payment, bill components, etc.;

- Many customers have requested paperless electricity bills and in 2014, E.L.K. listened to our customers and implemented this ability. In 2015, approximately 1400 customers had signed up for eBilling;

- Many customers have expressed an interest in reviewing their electricity consumption. E.L.K. listened to our customers and implemented e-care. Approximately 1400 customers have signed up to use a web portal to look at their specific data.

- Customers are very interested in conservation and E.L.K. has had a significant response from small and large business as well as from residential customers. E.L.K. has taken conservation planning and promotion to the next level. In 2015, E.L.K. contracted Greensaver to assist in delivering all aspects of conservation delivery. Further, in 2016, E.L.K. has undertaken the sharing of a Roving Energy Manager (REM) which will be instrumental in assisting E.L.K. meet its CDM goals and objectives. Under the REM program, a mutually beneficial relationship is created whereby the needs and wants of the utilities larger customers are satisfied through CDM offerings, while the REM becomes a significant resource of knowledge to the utility. Greensaver is Ontario’s leading not-for-profit energy efficiency organization. For more than 25 years, they have delivered energy conservation programs for government, agencies and utilities, assisting homeowners and businesses across Ontario to reduce their energy and environmental footprint. They are currently representing 51 utilities.

- Bill inserts and on-bill messaging is included monthly on the bill according to topics of interest and relevance to customers. For example, a recent insert included the saveONenergy Home Assistance and Heating and Cooling Incentive promoting consumer conservation programs and as well as the Low Income Program. This example is provided below in Table 1-13.

Table 1-13: Sample of E.L.K. Bill Insert

- E.L.K. has also implemented an in office library containing useful information for all customers to use and learn about the electricity industry, market and programs. Table 1-14 is a picture of this office library.

Table 1-14: E.L.K. Energy Library for Customers

- E.L.K. has also made significant efforts to engage the largest energy consumers in E.L.K.'s service territory to work on issues of importance to them. These engagement issues include electricity rates and pricing, billing inquiries, electrical supply concerns, demand response, and energy conservation. E.L.K.'s experience with this approach is that larger electricity consumers are very busy with their core responsibilities and they have a tolerance for the right amount of engagement that benefits their business.

E.L.K. has also summarized its customer engagement in Table 1-15 below from Appendix 2-AC.

Table 1-15: Customer Engagement Activities

Appendix 2-AC
Customer Engagement Activities Summary

Provide a list of customer engagement activities	Provide a list of customer needs and preferences identified through each engagement activity	Actions taken to respond to identified needs and preferences. If no action was taken, explain why.
Customer Letters, E-Blast, Bill Inserts	Conservation and Usage Reduction for Small Business and Residential and Low Income. Programs available to manage peak demand.	General Awareness is being promoted. Increase awareness, reduce consumption and cost.
Outreach to Essex Chamber of Commerce, Local B.I.A.	Conservation and Usage Reduction for Small Business and Residential and Low Income. Programs available to manage peak demand.	General Awareness is being promoted. Increase awareness, reduce consumption and cost.
Outreach to Local Area Foodbanks, Local Social Service Agency	Conservation and Usage Reduction for Small Business and Residential and Low Income	General Awareness is being promoted. Increase awareness, reduce consumption and cost.
Complete Re-design of E.L.K. Energy Website	Rate charges and impacts, great ability to research and gain greater understanding and awareness of industry and bill.	e-Services portal enables future enhancement
Customer Education Literature	Rate charges and impacts, great ability to research and gain greater understanding and awareness of industry and bill.	E.L.K. has created a Customer Education Section at the front of the office that has brochures, bill inserts, TOU info, Conservation info etc and staff are always willing and ready to answer questions.
E-Billing/Customer Connect - Online Account Services	E.L.K. provides access to customer bills and consumption data	E.L.K. has offering to customers based on input received from customers. This also reduces E.L.K.'s carbon footprint.
Financial Assistance Program	E.L.K. provides support through partnerships with the provinces Low Income Energy Assistance Program. This emergency financial assistance program are designed to help low income customers who have difficulty making their electricity bill payments	E.L.K. promotes and continues to promote verbally and in writing on a monthly basis about the financial assistance programs available.
Regional Planning Engagements	E.L.K. has participated in all Regional Planning Initiatives with Government and Municipalities.	
Increased Functionality with Phone System	Greater communication ability	Notification of rate charges, new e billing features
Oraclepoll Research Group Telephone Survey	Communication	E.L.K. has since engaged Greensaver to assist in the development of an entire Social Media Stream to allow for further option for customers to connect with E.L.K.
Oraclepoll Research Group Telephone Survey	Affordability	E.L.K. has since engaged Greensaver to assist in the development of an entire Social Media Stream to allow for further option for customers to connect with E.L.K.
Oraclepoll Research Group Telephone Survey	Power quality and reliability	Line Capacitors, Automatic Reclose Switches
Oraclepoll Research Group Telephone Survey	Customer service quality	Satisfaction surveys
Oraclepoll Research Group Telephone Survey	Value and affordability of service	
Oraclepoll Research Group Telephone Survey	Technological and self-service enhancements	E-Service Ontario's Green Button Policy
Oraclepoll Research Group Telephone Survey	Communicate unplanned outage information	Initial stages of a possible outage management system
Oraclepoll Research Group Telephone Survey	Consumption information	E-Services portal enables future enhancement
OEL meetings and Channel Partner/Contractor events/Geospatial analysis	Educate re: CDM programs and incentives	
Oraclepoll Research Group Telephone Survey	Spend what is needed to maintain the current level of outages	Line Capacitors, Automatic Reclose Switches
Oraclepoll Research Group Telephone Survey	Spend what is needed to maintain the current length of unexpected outages	Line Capacitors, Automatic Reclose Switches
Oraclepoll Research Group Telephone Survey	Invest what it takes to replace the system's aging infrastructure to maintain system reliability	Rebuilds - Pole Replacements, Transformer Replacements, Vault Replacements and General Rebuilds

5.2 Other Customer Engagement Activities

- Regional Planning Engagement and Meetings
- Contractor Association Meetings
- Education – Customers, school programs, etc.
- Outage Notification – Planned
- Forming alliances with other industry companies to improve service, reduce costs
- Website

5.3 Community Involvement

It is important to E.L.K. and its Shareholder that its employees support and give back to their community, and as such donations have been made to the following worthy organizations over the past 3 years by E.L.K. employees.

- Downtown Mission
- Breast Cancer Society
- Canadian Cancer Society
- A Life Worth Living
- ERCA
- ALS (Lou Gehrig's disease)
- The War Amps
- Heart and Stroke Foundation
- Canadian Diabetes Association

5.4 Social Services

Financial Assistance Program: E.L.K. provides support through partnerships such as the Unemployed Help Centre. Local offices serve specific areas; South Essex Community Council (Kingsville), Amherstburg Community Services (Harrow) and Lakeshore Community Centre (Belle River, Comber, Cottam and Essex). In addition, E.L.K. supports the partnership with the provinces Low-income Energy Assistance Program (LEAP). This emergency assistance program is designed to help low-income customers who have difficulty making their electricity bill payments.

5.5 Publications

The majority of E.L.K.'s customers receive a physical paper bill in the mail, and E.L.K. takes advantage of this opportunity to communicate additional information via messages on the outside of the envelope, separate inserts, and messages on the bill itself as previously described. Many of these messages are co-ordinated with announcements from the OEB, IESO, and other agencies, and include information about retailers, rate changes, conservation and demand management programs, electricity safety, and references to our website.

5.6 Front Desk Support

E.L.K. also maintains front desk support allowing the customer and the utility to interact on a direct basis. Social interaction is still one of the best ways to be in close contact with the customer. People like being heard and like giving feedback, which is done when paying their electricity bill at the front counter or filling out paperwork at E.L.K.

Maintaining a front desk allows information to be exchanged with every customer interaction. Data gathered through these interactions can then be used to improve business outcomes. E.L.K.'s front counter customer service representatives help bridge the gap between the customer and industry information as well as other utility staff. E.L.K. plans on continuing its front desk operations as a form of customer engagement and to ensure expected customer service levels are maintained.

E.L.K.'s Response to Customer Preferences

Through its comprehensive customer engagement activities which are summarized above, E.L.K. has identified six key customer preferences.

1. Affordable electricity costs
2. Reliability of service with rapid response to un-planned outages
3. Assistance to reduce consumption and thereby costs.
4. Communications through a variety of media including phone, internet, social media, in-person and email
5. Proactive communications when there are un-planned outages
6. Business to be customer centric including timely service that solves their problems

Below E.L.K. has summarized how it takes each of those preferences into account in the operation of its business.

1. Affordable electricity costs

E.L.K. frequently hears from its customers about the importance of affordable electricity. At the same time, customers also ask for services and have an expectation that when they touch a switch the lights will come on. As such, E.L.K. is proposing a cost of service application that balances the needs for customer focus, operational effectiveness (safety and reliability), public policy responsiveness and solid financial performance.

E.L.K. is already one of the lowest cost utilities in the province and this application will keep E.L.K. as one of the lowest cost utilities for our customers and show that a utility can be low cost and still remain financially stable.

It is true that many customers are feeling a "financial pinch" when it comes to their electricity bills. However, at the same time some customers are able and willing to pay more if that means maintaining system reliability and better service and service reliability.

2. Reliability of service with rapid response to un-planned outages

E.L.K. will maintain reliability within a high level of performance. These performance levels include the average number of hours and times that power to a customer is interrupted. E.L.K. has met and surpassed all of the OEB's service quality indicators. E.L.K.'s maintenance strategy is, to the extent possible, to minimize reactive and emergency-type work through an effective planned maintenance program (including predictive and preventative actions).

E.L.K.'s customer responsiveness and system reliability are monitored continually to ensure that its maintenance strategy is effective. This effort is coordinated with E.L.K.'s capital project work, so that where maintenance programs have identified matters the correction of which require capital investments, E.L.K. may adjust its capital spending priorities to address those matters. E.L.K.'s anticipated addition of two operational linemen in the 2017 Test year will assist in E.L.K.'s future succession planning. This will assist E.L.K. in properly managing workload and well as training new staff members during a time when E.L.K.'s aging workforce continues to increase and retirements become a forefront issue. Complexities and informational knowledge collected and experience over twenty years will be required to be learned and passed to the next generation of staff. These positions will contribute primarily from operational labour to underground and overhead distribution lines and feeders. As well, E.L.K. has given more attention towards its vegetation management program/tree trimming and is getting caught up from prior years as well. This adds value to the customer, that even though it may not be a safety issue, E.L.K. is addressing customer concerns more promptly.

2. Reliability of service

As previously mentioned, E.L.K.'s customer responsiveness and system reliability are monitored continually to ensure that its maintenance strategy is effective. This effort is coordinated with E.L.K.'s capital project work, so that where maintenance programs have identified matters the correction of which require capital investments, E.L.K. may adjust its capital spending priorities to address those matters.

When it comes to system reliability, a majority of customers want to see continued spending on upgrades and maintenance.

Regarding frequency of outages:

- 93% have the opinion that the reliability of power supply is satisfactory or better.

Regarding duration of outages:

- 72% have the opinion that E.L.K. provides prompt responses to outages.

Survey respondents were informed of E.L.K.'s proposed capital investment required to maintain system reliability and then asked to think about reliability in terms of bill impact.

- Approximately 55% believe that E.L.K. should invest in aging infrastructure to maintain system reliability, even if it means their bills may increase and to keep outages at a minimum.

3. Assistance to reduce consumption and thereby costs.

E.L.K. has actively supported and delivered conservation programs to its customers during third tranche programs and subsequently through provincial programs between 2011 and 2020.

Results show a high level of participation from both residential and non-residential customer segments. Much of the success attained was due to actively promoting programs and engaging the channel partner network. By working closely with contractors and suppliers, E.L.K. has been able to identify projects and engage key decision makers in order to help them evaluate opportunities and ultimately select more efficient technology. This approach has allowed customers to "buy" into provincial conservation programs.

E.L.K. is on track to meet or exceed its 2015-2020 energy conservation target of 16,200 MwH.

5.7 Business Community

E.L.K. has learned that customers do not necessarily think of participating in conservation programs without significant support and guidance. Small business customers lack resources and energy management expertise. E.L.K. together with Greensaver has therefore turned keyed the small business lighting program so that customers just basically agree to participate; all other activities are taken care of.

Larger customers require a higher level of support and engagement. The support varies based on the type of business, functions, and the customer's willingness to participate. E.L.K. uses the following guiding principles when working with larger business customers:

1) Streamlined incentive application process management by E.L.K.

2) Contractor involvement prior to engagement.

3) Providing walk through energy audits and technical guidance to identify and develop opportunities.

4) Utilizing roving energy managers to support large capital intensive retrofit projects.

5) Presenting findings and solutions to senior executives, board of directors, and other key decision makers.

6) Offering measurement equipment like power, light, flow meters and blower door tests.

7) Conducting on-going educational and awareness campaigns through marketing and public presentations.

5.7.1 **Residential Consumers:**

Residential customers are also actively interested in reducing costs and require information on provincial programs and how to manage costs around time-of-use rates. More programs are needed to effectively engage this customer segment but E.L.K. has been active in delivering two key initiatives including the Home Assistance Program and Residential Demand Response Program to 2014.

The Home Assistance program has targeted and offers free energy audits and energy efficient measures to income qualified tenants. Measures installed include light bulbs, power bars, programmable thermostats, low flow shower heads, sink aerators, hot water tank insulation, fridge/freezer replacement, attic insulation, wall insulation, and basement insulation. E.L.K. developed strong partnerships with community organizations such as Social Housing; Ontario Disability Support Program; Low Income People Involvement. This program has been extremely effective in helping vulnerable customers reduce costs and especially seniors who are on fixed income and concerned about rising costs.

The Residential Demand Response Program was deployed in E.L.K.'s service territory primarily designed to provide energy monitoring solutions to home-owners who have the ability to participate in provincial demand response events. Home-owners who either have a central air conditioner, electric hot water tank, or a combination of both would qualify for the program. Overall the program was successful.

4. Communications through a variety of media including phone, internet, social media, in-person and email

E.L.K. has taken steps to make more effective use of all these channels. Based on the feedback received, E.L.K. updated its website including new content and making the site easier to navigate. In the future, E.L.K. will ensure its communications plan builds on using conventional channels supplemented with new channels including social media based upon the new employees within this application. While not tested in the quantitative phase of the customer consultation, a number of customers in the qualitative phase of the consultation suggested that E.L.K. invest more in communication and the channels they use to reach customers. This was a particularly evident when communicating during power outages and letting customers know when power would be restored resulted in 56.7% satisfactory rating.

5. Proactive communications when there are un-planned outages

E.L.K. is looking into social media platforms that will allow E.L.K. to provide customer with more timely information. These tools will be updated during outages to provide customers with as close to real time information as possible so customers can make better decisions on actions to take at home or at work. E.L.K. will continue to develop and refine these communication tools.

6. Business to be customer centric including timely service that solves their problems

E.L.K. will continue to maintain and build on its exemplary customer service rating in the customer care category of its recent customer satisfaction survey. E.L.K. will implement some simple and cost effective measures to ensure timely service that solves customer problems. When customers contact E.L.K. they want acknowledgement that their problem is understood, they want empathy on the importance of their issue and they want a knowledgeable person to take action. E.L.K. is always trying to improve, making reminders, recommendation on wording use to assist in making the customer service experience that much better. E.L.K. has implemented a new procedure where customers are randomly called back each day to see if all their problems have been resolved and if they are satisfactory with the outcome and if any further action is required.

E.L.K. will continue with its store front operation so customers have the convenience and ability to speak directly with staff on any service issue whether it is a bill payment issue or arranging for new service or upgrades. Customers will also continue to have access to local experienced staff should they wish contact through another channel.

5.8 Letters of Comment

The utility does not have any letter of comments to address at the time of the filing.

6.0 PERFORMANCE MANAGEMENT

This Section details the steps E.L.K. has taken in respect of each of the Board's four RRFE outcomes. In connection with the RRFE outcomes, the Board issued a scorecard to E.L.K. on September 22, 2016, which is attached as Appendix 1B.

RENEWED REGULATORY FRAMEWORK FOR ELECTRICITY DISTRIBUTORS (RRFE)

The Board introduced a new approach to rate setting at the end of 2012 with the Renewed Regulatory Framework. The Renewed Regulatory Framework is a performance based approach to regulation that focuses on the achievement of outcomes such as efficiency, reliability, sustainability, and financial viability. The Report of the Board, Renewed Regulatory Framework for Electricity Distributors: A Performance Based Approach ("RRFE Report") issued on October 18, 2012, outlines the following four (4) performance outcomes the Board expects distributors to achieve.

1. **Customer Focus**: services are provided in a manner that responds to identified customer preferences;

2. **Operational Effectiveness**: continuous improvement in productivity and cost performance is achieved; and utilities deliver on system reliability and quality objectives;

3. **Public Policy Responsiveness**: utilities deliver on obligations mandated by government (e.g. in legislation and in regulatory requirements imposed further to Ministerial directives to the Board); and

4. **Financial Performance**: financial viability is maintained; and savings

Scorecard

On March 5, 2014, the Board issued a report for the Performance Measurement for Electricity distributors: A Scorecard Approach (EB-2010-0379). The report details the scorecard measures approach which the Board expects to use in order to monitor and assess a distributor's effectiveness and improvements in achieving the four performance outcomes mentioned above, and to eventually facilitate distributor benchmarking. During the implementation period of the scorecard, the Board recognized that new measures may not have uniform definitions and therefore the Board has not yet determined industry targets for these measures. The Board intends for all measures on the scorecard to be uniform and have industry targets by 2018 for comparability and benchmarking purposes.

E.L.K. has published its most recent scorecard for public viewing on its website at https://www.elkenergy.com/residential/general-information/

E.L.K.'s scorecard for 2011-2015 is presented below and in Appendix 1B in full.

Scorecard - E.L.K. Energy Inc.

9/22/2016

Performance Outcomes	Performance Categories	Measures		2011	2012	2013	2014	2015	Trend	Target: Industry	Target: Distributor
Customer Focus Services are provided in a manner that responds to identified customer preferences.	Service Quality	New Residential/Small Business Services Connected on Time		100.00%	96.80%	94.40%	92.90%	94.90%	↓	90.00%	
		Scheduled Appointments Met On Time		96.60%	100.00%	96.20%	100.00%	100.00%	↑	90.00%	
		Telephone Calls Answered On Time		96.40%	97.00%	97.40%	97.00%	97.50%	↑	65.00%	
	Customer Satisfaction	First Contact Resolution					98%+	Excellent			
		Billing Accuracy					99.97%	99.99%	↑	98.00%	
		Customer Satisfaction Survey Results					Excellent	Excellent			
Operational Effectiveness Continuous improvement in productivity and cost performance is achieved; and distributors deliver on system reliability and quality objectives.	Safety	Level of Public Awareness						78.00%			
		Level of Compliance with Ontario Regulation 22/04 [1]		C	C	C	C	C	→		C
		Serious Electrical Incident Index	Number of General Public Incidents	0	0	0	0	0	→		0
			Rate per 10, 100, 1000 km of line	0.000	0.000	0.000	0.000	0.000	→		0.000
	System Reliability	Average Number of Hours that Power to a Customer is Interrupted [2]		0.80	1.22	1.05	1.12	0.61	↓		1.40
		Average Number of Times that Power to a Customer is Interrupted [2]		0.41	0.34	0.44	0.50	0.21	↓		0.53
	Asset Management	Distribution System Plan Implementation Progress					In Progress	In Progress			
	Cost Control	Efficiency Assessment			1	1	1	1			
		Total Cost per Customer [3]		$418	$421	$401	$367	$428			
		Total Cost per Km of Line [3]		$31,417	$31,524	$29,697	$29,012	$31,877			
Public Policy Responsiveness Distributors deliver on obligations mandated by government (e.g., in legislation and in regulatory requirements imposed further to Ministerial directives to the Board).	Conservation & Demand Management	Net Cumulative Energy Savings [4]						10.26%			16.20 GWh
	Connection of Renewable Generation	Renewable Generation Connection Impact Assessments Completed On Time			100.00%	100.00%	100.00%				
		New Micro-embedded Generation Facilities Connected On Time				100.00%	100.00%	100.00%	→	90.00%	
Financial Performance Financial viability is maintained; and savings from operational effectiveness are sustainable.	Financial Ratios	Liquidity: Current Ratio (Current Assets/Current Liabilities)		3.45	3.94	3.10	2.55	2.07			
		Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio		1.55	1.01	1.03	0.81	0.63			
		Profitability: Regulatory Return on Equity	Deemed (included in rates)	9.00%	9.00%	9.12%	9.12%	9.12%			
			Achieved	4.07%	11.90%	9.20%	19.22%	10.72%			

1. Compliance with Ontario Regulation 22/04 assessed: Compliant (C); Needs Improvement (NI); or Non-Compliant (NC).
2. The trend's arrow direction is based on the comparison of the current 5-year rolling average to the fixed 5-year (2010 to 2014) average distributor-specific target on the right. An upward arrow indicates decreasing reliability while downward indicates improving reliability.
3. A benchmarking analysis determines the total cost figures from the distributor's reported information.
4. The CDM measure is based on the new 2015-2020 Conservation First Framework. This measure is under review and subject to change in the future.

Legend:
5-year trend: ↑ up ↓ down → flat
Current year: target met; target not met

Customer Focus:

Service Quality

New Residential/Small Business Connected on Time

Despite a downward trend in recent years, E.L.K. has improved performance in 2015. E.L.K.'s experience with connecting New Residential/Small Business Services on time continues to be above the industry target of 90% through a commitment to E.L.K.'s customers and E.L.K.'s process for new connections. E.L.K. plans to closely monitor month by month and work with operations to see if any future improvements can be made. In the future, E.L.K. plans to maintain this performance indicator above the industry target. E.L.K.'s trend for 2015 has increased from the previous two years. Further, E.L.K. expects that, if the application is successful continued success and achievement of targets will continue, with the addition of the requested linemen.

Scheduled Appointments Met On Time

E.L.K.'s experience with meeting Scheduled Appointments on time continues to be above the industry target of 90% through a continued commitment to E.L.K.'s customers and E.L.K.'s process for completing appointments within the 5 day window. This will be maintained by continuing with the use of service orders and giving priority to these appointments. In the future, E.L.K. will continue to do what is currently being done for continued success of this service quality indicator.

Telephone Calls Answered on Time

Calls answered within 30 seconds continues to be above the industry target of 65% and trending upward through a commitment to E.L.K.'s customers and E.L.K.'s process for telephone calls answered on time. With E.L.K.'s revamp of its website as well as promotion of e-care, both online tools allow customers the ability to answer routine questions on their own and allowing customer service representatives to spend more time on complex calls. In the future, E.L.K. will also look at having a dedicated customer service representative to answer phone calls based on the results being achieved at E.L.K.

6.1 Customer Satisfaction

First Contact Resolution ("FCR")

E.L.K. continues to develop this measure as no firm methodology from the OEB has been presented. A tool E.L.K. uses is how many customer calls get escalated to upper management as well as the OEB level. Per E.L.K.'s 2014 scorecard, E.L.K. conducted a customer satisfaction survey online which resulted in an overall positive customer experience. E.L.K. also conducted a 2015 survey for E.L.K.'s COS and produced very positive results. The number of customer issues that required escalation after the first contact were minimal. Success rate of resolving the customer issue is over 98%. In the future, E.L.K. will continue to conduct third party surveys to our customers, ultimately trying to address any concerns they may have.

Billing Accuracy

Any bill adjustment or cancelled bill after the bill is issued is tracked and recorded manually through the examination of all cancelled bills. In 2014 and 2015 E.L.K. has met the target of 98% with percentages of 99.97% and 99.99% respectively. In the future, E.L.K. will be working with our Customer Information System to develop a more sophisticated method of tracking for this measure.

Customer Satisfaction Survey

Active engagement with customers helps E.L.K. understand its customer preferences and assist the organization in shifting focus in order to deliver services in alignment with customer needs. The recent study conducted by Oracle Poll, found in Appendix 1D indicated that 75% of responded were satisfied, good or very good, and 14% not knowing. Please refer to Table 1-15 of this Exhibit for details of E.L.K.'s Customer Engagement Activities. In the future,

One of the first actions taken was the process of researching all forms of social media aspects for communication with customers. E.L.K. has recently engaged a third party to assist us with the planning and implementation of this and a planned 2017 launch is E.L.K.'s target. This new platform will be the responsibility of one of E.L.K. new employees being requested as part of this application, and provides the customer with some added value in which E.L.K. would not be able to deliver under the current structure. As an example, this will allow E.L.K. to make real time comments on system conditions during outages.

Future annual customer surveys and quality assurance programs will act as a compass to guide the business and support continuous improvement.

6.2 Operational Effectiveness

Board Staff recommended 9 measures to assess a distributor's operational effectiveness: three safety measures, two system reliability measures, one asset management measure, and three overall cost performance measures.

Safety

E.L.K. receives data from ESA providing performance data for the 2015 Distributor Scorecard. The data was for Component B (Compliance with Ontario Regulation 22/04) and Component C (Serious Electrical Incident Index) under the 'Safety' Performance Category of the Scorecard. E.L.K. has always been compliant with Ontario regulation 22/04 and has had zero serious electrical incidents occur over the life of the scorecard.

System Reliability

SAIDI and SAIFI

E.L.K.'s system reliability statistics for both System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI) falls within E.L.K.'s target as detailed in E.L.K.'s 2015 Scorecard. The change over the past few years is the result of a higher number of more impactful weather events. With respect to E.L.K.'s distribution network during normal operation as well as severe weather events, E.L.K. continues to invest in new infrastructure as well as perform preventative maintenance which is intended and will allow E.L.K. to continue to meet it system reliability targets.

6.3 Asset Management

Distribution System Plan Implementation Progress

Performance metrics added by the OEB in 2014 include monitoring the cost efficiency and effectiveness with respect to planning quality and DSP implementation. E.L.K. has historically not tracked these metrics and will be developing processes to monitor and report in these areas. Metrics will include:

- Physical project progress vs. plan;
- Financial project progress vs. plan; and
- Actual vs. planned cost of work completed.

E.L.K.'s Distribution System Plan is completed and filed with this application in Exhibit 2, Appendix 2A.

6.4 Cost Control

E.L.K.'s total costs per customer of $367 in 2014 are a decrease over 2013 amount of $401. Further, the total cost per Km of line has remained stable and actually decreased minimally in 2014 compared to 2013.

Further, in regards to cost control, E.L.K. continues to maintain one of the lowest "OM & A cost per customer", as reflected in the 2014 Yearbook of Electricity Distributors, as the eighth lowest LDC in Ontario. Furthermore, according to the 2015 PEG report, E.L.K. continues to perform well. Overall efficiency rating of -37.6% is ranked 3rd best in the province and clearly indicates E.L.K.'s focus on operational effectiveness. Assuming the OM & A and Capital Costs in this application, WDI overall cohort ranking (Cohort I) will remain the same.

In the future, E.L.K. will continue to be committed to the measures under operational effectiveness, maintaining its strong safety and system reliability measures. Even with the increased OM & A, E.L.K. will continue to find efficiencies and cost improvements as detailed out below:

Efficiencies and Cost Improvements

E.L.K. has been working hard to improve its performances, to reduce costs, and to be more efficient. Focusing on customer satisfaction, E.L.K. details below some of the initiatives which all align with the objectives of the RRFE. E.L.K. will continue to find ways to respond to its customer needs, and add more value to its customer if it is cost efficient.

24 Hours After Hours Call and On-Call Staff

In an effort to respond to customer needs, E.L.K. possesses a 24 hour after hours call centre telephone answering service that processes calls from customers and the general public in accordance with instructions from E.L.K. On call staff is available 24 hours a day, including evenings, weekends and statutory holidays.

Competitive Purchasing

Within E.L.K.'s purchasing policy, a purchase order is required for all items greater than one thousand dollars and requires three quotes. E.L.K. is cost conscious and all savings achieved by price comparing for most items are passed on through the ratepayer through rates.

Customer Service Efficiencies

Online Services

E.L.K.'s service strategy included adding more web based applications in addition to a complete upgrade of E.L.K.'s website. With respect to E.L.K.'s website, there is now a tremendous amount of knowledge, links, customer forms all which we have seen some of the more simple and repetitive calls decline. E.L.K.'s incoming calls have decreased each of the past three years. E.L.K. has maintained its complement of Customer Service representatives together with the growth at E.L.K.

Telecommunications

In 2014, E.L.K. hired a third party consultant to review all of E.L.K.'s telecommunications, including local, long distance, internet and cellular services. An annual savings of approximately $4,500 or 28.15% was achieved. These savings are now fully incorporated into E.L.K.'s cost structure and flow directly to the benefit of the rate payer.

Human Resource Efficiencies

Employee Benefits Efficiencies

E.L.K. is part of The Mearie Group in partnership with Comprehensive Benefits Solutions whose focus is insurance reciprocal. In 2013, MEARIE conducted a Request for Proposal for quotations regarding Group Employee Benefit Program to test the competitiveness of the current plan pricing and expenses. A transition was made for Life and Disability Programs (including basic term life, Retirement Life, Supplemental Life, Optional Life, Dependant Life, Critical Illness, Short and Long Term disability plans resulting in overall cost savings to E.L.K. in these areas).

6.5 Public Policy Responsiveness

In the Board's Scorecard Report, Board Staff recommended four measures to assess a distributors' public policy responsiveness: two CDM measures and two measures for connection of renewable generation.

Conservation and Demand Management

In 2011 – 2014, E.L.K. contracted with the IESO to deliver a portfolio of IESO-contracted province-wide CDM programs ("IESO Programs") to all customer segments including residential, commercial, institutional, and low income. Most of these programs were rolled-out by the IESO in June 2011. In 2011 program activities were centered on building a foundation for full program execution over the next three years of the program term, including staffing, procurement, and program delivery.

E.L.K. focused on many of the conservation programs, concentrating on the small business lighting program, ERII, the Peaksaver Plus and Low Income Program.

Since 2006, through two previous generations of CDM programming, E.L.K. has demonstrated a strong commitment to serving its customers. For 2011-2014, E.L.K. was allocated 4-year targets of 2.7MW of Peak Demand Savings and 8.3 GWh of Net Cumulative Energy Savings.

Over the course of 2014, E.L.K. achieved an incremental 1.0 MW in peak demand savings and 8.0 GWh in energy savings, which represents 37.8% and 96.9% of E.L.K.'s 2014 target, respectively.

These results are representative of a considerable effort expended by E.L.K., in cooperation with customers, channel partners and stakeholders to overcome many operational and structural issues that limited program effectiveness across all market sectors. This achievement is a success and the relationships built within the 2011-2014 CDM program term will aid results in future CDM programs.

Future reports on Conservation will be provided by E.L.K. to the IESO who will report annually to the OEB.

Connection of Renewable Generation

E.L.K. supports the processing of requests for connections by embedded renewable and non-renewable generation. As of December 31, 2015 E.L.K. has connected a total of 135 microFIT and 5 FIT generation customers with a connected capacity of 1680 KW

Renewable Generation Connection Impact Assessments Completed on Time

All completed E.L.K. CIA's were done in the prescribed time limit

New Micro-embedded Generation Facilities Connected on Time

All microFITS have been connected on time. E.L.K. works closely with customers and their contractors to address any connection issues and ensure the project is connected on time.

Government Obligations

E.L.K. has been required to support a number of provincial policy initiatives, including, but not limited to:

- Mandatory purchase and deployment of smart meters and conversion to time of use billing. This is a directive of the Minister of Energy to provide accurate energy consumption and allow utilities to respond quickly to power interruptions. E.L.K. is fully compliant.

- Mandatory framing of time-of-use billing data through the provincial meter data management repository. E.L.K. required no extensions and beginning November 2011 achieved Time of Use pricing on customer bills.

- Implementation of the Green Energy and Green Economy Act, including the increased focus on facilitation renewable generation at homes and businesses.

- Implementation of Low Income Energy Assistance Program, new options and assistance for low income customers. The Board determined that the funds to be distributed by distributors to LEAP should be the greater of $2,000 or .012% of a distributor's Board – approved distribution revenue requirement. E.L.K. has achieved this every year starting in 2012.

- Mandatory Distribution System Code Amendments impacting billing issuance and payment revisions, disconnections and payment procedures, disconnections for non-payments and arrears payment agreements.

- Mandatory, as a condition of maintaining a Distributor's License, achievement of energy conservation results. The IESO and OEB were satisfied with E.L.K.'s results as well as the reasoning's for the shortfalls.

- Adoption of IFRS. 2015 are the first financial statements prepared in accordance with IFRS and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied.

- Implementation of HST. The Ontario Provincial Government combined the GST and PST taxes to implement HST on July 1, 2010. E.L.K. met the implementation date for the bill print.

- Mandatory implementation of the Ontario Clean Energy Benefit ("OCEB") and Ontario Electricity Support Program ("OESC"). Effective January 1, 2011, a credit of 10% of the base invoice amount applies to electric charges on each residential or GS<50 customer bill. Effective September 1, 2012, OCEB was limited to the first 3000 kWh consumption per month. E.L.K. submits monthly online OCEB reports to the Ministry of Energy and achieved this target beginning January 2011. With respect to the OESP, E.L.K. made the appropriate changes to its CIS as required and was 100% compliant for the roll out.

- Adoption of the Accessibility for Ontarians with Disabilities Act, 2005. Achieved all requirements based on E.L.K.'s number of employees.

- Ontario One Call – All owners and operators of underground infrastructure, including municipalities are required to be members of ON1 Call and to respond to locate requests.

- Bill Print changes to include Line Losses- Losses were reflected in the "Electricity subheading on low-volume customer bills. New regulation had these charges related to line loss included under the "Delivery" subheading. E.L.K. is in full compliance and achieved this July 2013.

- Act in accordance with Industrial Conservation Initiative (Class "A" Global Adjustment).

- Development of plans/targets for a new CDM framework for the 2015-20 periods. E.L.K. has hired Greensaver to assist E.L.K. in its Conservation initiatives.

- Renewed Regulatory Framework with its incremental requirements around asset planning, customer engagement, reporting, rate setting and maintaining a scorecard. E.L.K. has reported all changes to the OEB as required.

- Master Agreement with the IESO on conservation program delivery including audits by IESO or their representatives. The agreement has been signed with the IESO.

- Long Term Energy Plan which sets out a framework for nuclear power, renewable energy, conservation, rate mitigation, regional planning and energy innovation. The plan identified, as part of the rate mitigation strategy that:

> "The Distribution Sector Review Panel, which delivered its report, identified the potential for significant savings among the province's Local Distribution Companies (LDCs). The government expects that LDCs will pursue innovative partnerships and transformative initiatives that will result in electricity ratepayer savings."

Each of these policies have customer and resource implications to successfully implement and support. Often, the extent of the resourcing and customer service requirements were not known until the policies implemented.

Going Forward, E.L.K. has continued to engage with Greensaver to assist us in meeting all targets with respect to conservation and demand management.

In the future, E.L.K. continues to aggressively pursue with customer's energy efficiency and conservation initiatives in order to reach our target as well as work with customers and third parties for all microFIT and FIT applications.

6.6 Financial Performance

In the Board's Scorecard Report, Board Staff recommended three measures to assess a distributor's financial viability: current ratio, total debt-to-equity ratio, and achieved regulated rate of return.

E.L.K. continues to remain efficient as evident from the recently released PEG analysis report (July 2016) that has E.L.K. placed in Group 1 despite recent economic and industry challenges posed by increased activity and complex operational demands. The main factors contributing to the utilities financial success are a strong focus on performance and associated financial management, efficiencies achieved throughout the financial year including reductions in overhead expenses and a continued focus on fiscal responsibility and planning.

Current Ratio

As an indicator of financial health, a current ratio that is greater than 1 is considered good as it indicates the company can pay its short term debts and financial obligations. E.L.K.'s 2014 current ratio of 2.55 in 2014 and 2.05 in 2015 are strong.

Total Debt to Equity Ratio

A debt to equity ratio of 1.5 indicates that a distributor is more highly leveraged than the deemed capital structure. A high debt to equity ratio may indicate that an electricity distributor may have difficulty generating sufficient cash flows to make its debt payments. E.L.K.'s debt to equity ratio of 0.81 in 2014 and 0.63 in 2015 is strong.

Regulatory Return on Equity

E.L.K.'s current distribution rates were approved by the OEB effective May 1, 2015 and include an expected return on equity of 9.12%. In 2015, the regulatory return on equity is 10.72%. E.L.K. will use the additional regulatory/accounting analyst to allow E.L.K. to report internally more frequently and compile data to allow for a smoothing of the ROE over the years.

In the future, E.L.K. will continue to monitor these ratios as well as other financial ratios and with the addition of the regulatory/accounting staff, this can be done much more often and reaction time for changes can then be done much quicker, in a more timely manner.

7.0 FINANCIAL INFORMATION

7.1 Non-Consolidated Audited Financial Statements

E.L.K. has filed the non-consolidated audited financial statements of the utility for the three most recent historical years i.e. for the years ending December 31, 2013 to 2015 respectively. These statements exclude the operations of affiliated companies that are not rate regulated. In addition, non-utility businesses being conducted by E.L.K. have been segregated in the financial reporting from its rate regulated activities. Copies of E.L.K.'s Audited Financial Statements are provided in Appendices 1-E, 1-F and 1-G.

7.2 Reconciliation Between Audited Financial Statements and Regulatory Accounting

E.L.K. has followed the accounting principles and main categories of accounts as stated in the OEB's Accounting Procedures Handbook (the "APH") and the Uniform System of Accounts ("USoA") in the preparation of this application. E.L.K.'s reconciliation prepared in conjunction with KPMG between financial statements and regulatory financial results is provided as Appendix 1H.

7.3 Annual Report and MD&A for Parent Company

E.L.K. does not publish an annual report or an MD&A. As a result, this requirement is not applicable.

7.4 Rating Agency Reports:

E.L.K. does not possess any Rating Agency Reports.

7.5 Prospectus, Information Circulars for Recent and Planned Issuances

E.L.K. has not prepared any prospectuses or information circulars for recent or planned issuances.

7.6 Changes in Tax Status

E.L.K. is a corporation incorporated pursuant to the Ontario Business Corporations Act and has not had a change in tax status since its last Cost of Service Application dated September 19, 2012, EB-2011-0099.

7.7 Accounting Orders

E.L.K. is not requesting Accounting Orders in this proceeding.

E.L.K. has not changed its accounting policies since its last Cost of Service application for 2012 rates (EB-2011-0099), and therefore there are no impacts on revenue requirement.

7.8 Uniform System of Accounts

E.L.K. is not aware of any Uniform System of Account departures.

7.9 Accounting Standards

The Accounting Standard Board ("AcSB") deferred mandatory adoption of IFRS for qualifying rate-regulated entities to January 1, 2015. However, per the Board's letter of July 17, 2012, electricity distributors electing to remain on CGAAP were required to implement regulatory accounting changes for depreciation expenses and capitalization policies by January 1, 2013. E.L.K. confirms it implemented the regulatory accounting changes for depreciation in 2013 and overhead capitalization during its 2013 fiscal year end. The 2017 Cost of Service Application is to be filed on an IFRS accounting basis, as such, E.L.K. has prepared its application on an IFRS basis.

7.10 Accounting Treatment of Non-Utility Businesses

E.L.K.'s application has been prepared to show E.L.K. as a regulated entity, separately from its parent company or its affiliate that is not regulated by the Board. Only the amounts attributable to E.L.K. have been reflected.

E.L.K. confirms that the accounting treatment it has used in this application has segregated all of non-utility activities from its rate regulated activities.

MATERIALITY THRESHOLDS

The Minimum Filing requirements state that a distributor with a distribution revenue requirement of less than $10 million must use $50,000 as a materiality threshold. With a proposed base revenue requirement of $3,963,096 E.L.K. has used this amount as a materiality threshold throughout this application.

8.0 DISTRIBUTOR CONSOLIDATION

E.L.K. has not acquired or amalgamated with another LDC since its last rebasing.

9.0 Other Information

9.1 INFORMATION ON AFFILIATES

E.L.K. provides services for an affiliate company, E.L.K. Solutions Inc. (E.L.K. Solutions). Appendix 1I details out this agreement.

E.L.K. also performs services for its shareholder the Town of Essex.

9.2 SERVICES PROVIDED BY E.L.K. TO E.L.K. SOLUTIONS

9.2.1 **Water Heater Services**

From time to time, one or more of the Designated Employees will be made available by Energy to Solutions to provide Services in relation to the Business. Appendix 1I details out the Service Agreement between E.L.K. Energy Inc. and E.L.K. Solutions Inc.

9.2.2 **Street Light and Sentinel Light Services**

From time to time, one or more of the Designated Employees will be made available by Energy to Solutions to provide Services in relation to the Business Appendix 1H details out the Service Agreement between E.L.K. Energy Inc. and E.L.K. Solutions Inc.

9.3 SERVICES PROVIDED BY E.L.K. TO TOWN OF ESSEX

9.3.1 **Water & Sewer Billing Services**

E.L.K. provides the Town of Essex water and sewer billing services. These services include meter reading, service orders, billing, bill collection and payment, answering all customer water and sewage related inquiries and other customer services as required. By providing this service, E.L.K. has been able to combine meter reading, billing, collections and customer service functions. Approximately 35% of the bills issued each month are shared electricity/water and sewer bills and approximately 27% are water only accounts.

<u>**Appendix 1A- E.L.K. Business Strategic Plan 2016**</u>

E.L.K. ENERGY INC.

BUSINESS STRATEGIC PLAN 2017

E.L.K. ENERGY INC.

172 FOREST AVE.

ESSEX ON N8M 3E4

CORPORATE AND UTILITY ORGANIZATIONAL STRUCTURE

On January 6, 2010, E.L.K. was incorporated pursuant to the *Business Corporations Act*, of Ontario, and is the successor corporation to the Hydro-Electric Commission for the Town of Essex, the Corporation of the Town of Lakeshore Hydro-Electric Commission, and the Kingsville Hydro Electric Commission. Initially, the three municipalities were shareholders of the corporation. In 2008, E.L.K.'s shareholders entered into a share purchase agreement whereby the Town of Essex agreed to purchase the common shares of the Town of Lakeshore and Town of Kingsville. The transaction was approved by the Board in January 2009, and the Town of Essex became the Company's sole shareholder. E.L.K. is therefore 100% owned by The Corporation of the Town of Essex.

BOARD AND MANAGEMENT WORKING IN HARMONY

The E.L.K. Board and Management work together.

Each of the Board and Management has a fiduciary duty in relation to the Company

The Board and Management must work together and in harmony and collaborate together not independent from one another

Management develops plans, procedures, guidelines and reports; the Board provides advice, feedback and perspective

A tone of trust and respect is important to the relationship between Management and Board. Open, frank and honest discussions are encouraged at all Board meetings. Management provides the E.L.K. Board with written reports, oral reports, verbal and written responses to E.L.K. Board inquiries, that are crucial to the successful realization of E.L.K.'s corporate goals and objectives. These practices, enable E.L.K. Board members to understand the issues facing the utility, and assist the Board in exercising its independent judgement in carrying out its responsibilities. The E.L.K. Board conducts an annual assessment of E.L.K.'s performance and discusses individual management's member's performance.

Board Mandate:

The board's primary duty is to supervise the management of the business and affairs of E.L.K. and to protect the investment of the Shareholder by managing the exposure of inherent risks.

CORPORATE GOVERNANCE

Board Meetings:

E.L.K. holds monthly Board Meetings

E.L.K.'s Board Representation:

The E.L.K. Board is appointed by E.L.K.'s shareholder. The Corporation of the Town of Essex identifies and selects new members of the Board.

E.L.K.'s Board of Directors consists of nine directors, none of which is an employee or officer of the utility. Of the nine directors, four are independent, and do not sit on the Board of any E.L.K. affiliate. This conforms to the Affiliate Relationship Code ("ARC") whereby at least one-third of its directors must remain independent from Affiliate Boards.

Board Committees:

There is one regular committee of the E.L.K. Board, that being the Finance Committee.

POSITIONING E.L.K. FOR CHANGE

E.L.K. has served the Towns of Essex, Lakeshore and Kingsville which include six non-contiguous service areas, serving the communities of Belle River, Comber, Cottam, Essex, Harrow and Kingsville for the last 16 years. Residents, businesses and institutions who receive electricity distribution services from E.L.K. will be affected by the Application.

E.L.K. must continue to evolve its business to meet current and future demands from its customers, adding value from the community and the broader sector. The distribution sector in Ontario is poised for further change in the future. E.L.K. will identify different strategic business scenarios, critical success factors for each scenario and prepare itself for eventual change.

The executive team at E.L.K. comprises the Chief Executive Officer as well as the Director, Finance & Regulatory Affairs.

MISSION AND OBJECTIVES

OUR MISSION

E.L.K.'s mission statement is to provide the highest quality service to our customers by ensuring that the electrical system is designed, constructed and maintained to ensure its reliability, safety and affordability while increasing shareholder value.

OUR OBJECTIVES

E.L.K.'s priorities are defined in its Corporate Goals

- Provide a safe and reliable electricity distribution system with the capacity to meet the expectations of our customers and support local economic growth.
- Promote and practise excellence in safety.
- Establish the lowest retail rates possible without compromising the financial integrity of the Corporation in compliance to our Shareholder's direction and Corporate Strategic Plan.

SPECIFIC BUSINESS GOALS FOR 2017

E.L.K. has taken a strategic approach to its business plan in order to position itself to deliver on its goals and objectives.

1. Maintain an adequate and skilled employee base to meet ongoing demand and meet E.L.K.'s Capital Investment Plan.

2. Increase regulatory/accounting and operational capacity in the accounting and engineering departments. Right size these departments.

3. Plan to meet E.L.K.'s Service Quality Objectives by increasing formal customer engagement activities.

4. Plan to meet E.L.K.'s Conservation and Demand Management Objectives.

5. Plan to formalize the asset management process

6. Plan to meet E.L.K.'s Health, Safety and Wellness Objectives

MAINTAINING SUCCESS

1. Create sustainable value for our shareholder by promoting business strengths and pursuing appropriate business opportunities.
2. Keeping up-to- date on regulatory and provincial changes
3. Continuance of relationships with E.L.K.'s third party conservation partner in order to achieve all CDM requirements.
4. Regular review of fixed asset and the Distribution System Plan
5. Continued Technological advancements to optimize effectiveness and efficiency.
6. Strong and effective fiscal management.

HOW TO REMAIN SUCCESSFUL AND BUILDING ON CURRENT SUCCESS

The Board introduced a new approach to rate setting at the end of 2012 with the Renewed Regulatory Framework The Renewed Regulatory Framework is a performance based approach to regulation that focuses on the achievement of outcomes such as efficiency, reliability, sustainability, and financial viability. *The Report of the Board, Renewed Regulatory Framework for Electricity Distributors: A Performance Based Approach ("RRFE Report")* issued on October 18, 2012, outlines the following four (4) performance outcomes the Board expects distributors to achieve.

1. **Customer Focus**: services are provided in a manner that responds to identified customer preferences.
2. **Operational Effectiveness**: continuous improvement in productivity and cost performance is achieved; and utilities deliver on system reliability and quality objectives;
3. **Public Policy Responsiveness**: utilities deliver on obligations mandated by government (e.g. in legislation and in regulatory requirements imposed further to Ministerial directives to the Board); and

4. **Financial Performance**: financial viability is maintained; and savings

COST REDUCTIONS AND PRODUCTIVITY IMPROVEMENTS NOW AND IN THE FUTURE

1. E.L.K. will continue to offer and promote eBilling to maintain and potentially increase the number of customers using this billing option.

2. E.L.K. will continue with in-house monthly bill production and printing. E.L.K. is already billing all customers on a calendar month basis.

3. E.L.K. will continue to utilize an Operational Data Store.

4. E.L.K. will continue to improve on communication of our company strengths and accomplishments to our customers and shareholders.

5. E.L.K. will continue to anticipate and react quickly to constant legislative and regulatory changes.

The Board's oversight relationship with management and accountability to the Shareholder is to be guided by the Company's Statement of Mission, Vision and Values.

Directors are expected to work with their fellow Directors to fulfill the mandates of the Board and the committees of the Board.

Appendix 1B- E.L.K. Energy Inc, 2015 Scorecard

Scorecard - E.L.K. Energy Inc.

9/22/2016

Performance Outcomes	Performance Categories	Measures		2011	2012	2013	2014	2015	Trend	Target: Industry	Target: Distributor
Customer Focus Services are provided in a manner that responds to identified customer preferences.	Service Quality	New Residential/Small Business Services Connected on Time		100.00%	98.80%	94.40%	92.90%	94.90%		90.00%	
		Scheduled Appointments Met On Time		96.60%	100.00%	96.20%	100.00%	100.00%		90.00%	
		Telephone Calls Answered On Time		96.40%	97.00%	97.40%	97.00%	97.50%		65.00%	
	Customer Satisfaction	First Contact Resolution					98%+	Excellent			
		Billing Accuracy					99.97%	99.99%		98.00%	
		Customer Satisfaction Survey Results					Excellent	Excellent			
Operational Effectiveness Continuous improvement in productivity and cost performance is achieved; and distributors deliver on system reliability and quality objectives.	Safety	Level of Public Awareness						78.00%			
		Level of Compliance with Ontario Regulation 22/04 [1]		C	C	C	C	C			C
		Serious Electrical Incident Index	Number of General Public Incidents	0	0	0	0	0			0
			Rate per 10, 100, 1000 km of line	0.000	0.000	0.000	0.000	0.000			0.000
	System Reliability	Average Number of Hours that Power to a Customer is Interrupted [2]		0.80	1.22	1.05	1.12	0.61			1.40
		Average Number of Times that Power to a Customer is Interrupted [2]		0.41	0.34	0.44	0.50	0.21			0.53
	Asset Management	Distribution System Plan Implementation Progress					In Progress	In Progress			
	Cost Control	Efficiency Assessment			1	1	1	1			
		Total Cost per Customer [3]		$418	$421	$401	$387	$428			
		Total Cost per Km of Line [3]		$31,417	$31,524	$29,697	$29,012	$31,877			
Public Policy Responsiveness Distributors deliver on obligations mandated by government (e.g., in legislation and in regulatory requirements imposed further to Ministerial directives to the Board).	Conservation & Demand Management	Net Cumulative Energy Savings [4]						10.26%			16.20 GWh
	Connection of Renewable Generation	Renewable Generation Connection Impact Assessments Completed On Time			100.00%	100.00%	100.00%				
		New Micro-embedded Generation Facilities Connected On Time				100.00%	100.00%	100.00%		90.00%	
Financial Performance Financial viability is maintained; and savings from operational effectiveness are sustainable.	Financial Ratios	Liquidity: Current Ratio (Current Assets/Current Liabilities)		3.45	3.94	3.10	2.55	2.07			
		Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio		1.55	1.01	1.03	0.81	0.63			
		Profitability: Regulatory Return on Equity	Deemed (included in rates)	9.00%	9.00%	9.12%	9.12%	9.12%			
			Achieved	4.07%	11.90%	9.20%	19.22%	10.72%			

1. Compliance with Ontario Regulation 22/04 assessed: Compliant (C); Needs Improvement (NI); or Non-Compliant (NC).
2. The trend's arrow direction is based on the comparison of the current 5-year rolling average to the fixed 5-year (2010 to 2014) average distributor-specific target on the right. An upward arrow indicates decreasing reliability while downward indicates improving reliability.
3. A benchmarking analysis determines the total cost figures from the distributor's reported information.
4. The CDM measure is based on the new 2015-2020 Conservation First Framework. This measure is under review and subject to change in the future.

Legend: 5-year trend: up, down, flat. Current year: target met, target not met

2015 Scorecard Management Discussion and Analysis ("2015 Scorecard MD&A")

The link below provides a document titled "Scorecard - Performance Measure Descriptions" that has the technical definition, plain language description and how the measure may be compared for each of the Scorecard's measures in the 2015 Scorecard MD&A: http://www.ontarioenergyboard.ca/OEB/_Documents/scorecard/Scorecard_Performance_Measure_Descriptions.pdf

Scorecard MD&A - General Overview

- In 2015, E.L.K. Energy Inc. (E.L.K.) exceeded all performance targets. In 2016, E.L.K. will continue to strive to achieve positive scorecard results and continue to look ways to improve the customer experience.

Service Quality

- **New Residential/Small Business Services Connected on Time**
  In 2015, E.L.K. connected 94.90% of approximately 90 eligible low-voltage residential and small business customers to E.L.K.'s system within the five day timeline prescribed by the Ontario Energy Board (OEB). This is above the OEB mandated threshold of 90%.

- **Scheduled Appointments Met On Time**
  In 2015, E.L.K. scheduled approximately 100 appointments with customers in 2015 to complete work requested by customers, read meters, reconnect, or otherwise necessary to perform. E.L.K. met 100% of these appointments on time, which significantly exceeds the industry target of 90%.

- **Telephone Calls Answered On Time**
  In 2015 E.L.K. customer service agents received over 13,200 calls from its customers. An agent answered a call in 30 seconds or less in 97.5% of these calls which is consistent with 2014. This result significantly exceeds the OEB – mandated 65% target for timely call response. The call volume decreased by almost 2% and can be attributed to successfully promoting on-line self-serve features, and internal process improvements.

Customer Satisfaction

- **First Contact Resolution**
  - E.L.K. continues to develop this measure as no firm methodology has been presented. Per E.L.K.'s 2014 scorecard, E.L.K. conducted a customer satisfaction survey online which resulted in an overall positive customer experience. E.L.K. also conducted a 2015 survey for E.L.K.'s COS and produced very positive results. The number of customer issues that required escalation after the first contact were minimal. Success rate of resolving the customer issue is over 98%.

- **Billing Accuracy**
  In 2015, E.L.K. issued approximately 140,000 electricity bills and achieved a billing accuracy of 99.99%. This compares favorably to the prescribed OEB target of 98%.

- **Customer Satisfaction Survey Results**
  In 2015, as part of Active engagement with customers, E.L.K. understands its customer preferences and assists the organization in shifting focus in order to deliver services in alignment with customer needs. E.L.K. scored an excellent result. A recent study conducted by Oracle Poll, indicated that 75% of respondents were satisfied, good or very good, and 14% not knowing.

Safety

- **Public Safety**
  - **Component A – Public Awareness of Electrical Safety**
    E.L.K. received a public awareness level of 78% per the OraclePoll survey conducted for 2015. E.L.K. continues to educate our customer base through website updates, in –office library, bill messages, etc.
  - **Component B – Compliance with Ontario Regulation 22/04**
    E.L.K. receives data from ESA providing performance data for the 2015 Distributor Scorecard. The data was for Component B (Compliance with Ontario Regulation 22/04) and Component C (Serious Electrical Incident Index) under the 'Safety' Performance Category of the Scorecard. E.L.K. has always been compliant with Ontario regulation 22/04 and has had zero serious electrical incidents occur over the life of the scorecard.
  - **Component C – Serious Electrical Incident Index**
    E.L.K. receives data from ESA providing performance data for the 2015 Distributor Scorecard. The data was for Component B (Compliance with Ontario Regulation 22/04) and Component C (Serious Electrical Incident Index) under the 'Safety' Performance Category of the Scorecard. E.L.K. has always been compliant with Ontario regulation 22/04 and has had zero serious electrical incidents occur over the life of the scorecard.

System Reliability

- **Average Number of Hours that Power to a Customer is Interrupted**
  In 2015 E.L.K.'s average number of hours that power to a customer was interrupted was .61 which is fairly consistent with previous years.

- **Average Number of Times that Power to a Customer is Interrupted**
  In 2015 E.L.K.'s average number of times that power to a customer was interrupted (i.e. frequency) was .21 which is consistent with previous years.

Asset Management

- **Distribution System Plan Implementation Progress**
  Currently in process

Cost Control

- **Efficiency Assessment**
  The total costs for Ontario local electricity distribution companies are evaluated by the Pacific Economics Group LLC on behalf of the OEB to produce a single efficiency ranking. The electricity distributors are divided into five groups based on the magnitude of the difference between their respective individual actual and predicted costs. In 2015, for the fourth year in a row, E.L.K. was placed in Group 1, where a Group 1 distributor is considered most efficient. E.L.K. was one of five utilities in Group 1 in 2015.

- **Total Cost per Customer**
  Total cost per customer is calculated as the sum of E.L.K.'s capital and operating costs and dividing this cost figure by the total number of customers that E.L.K. serves. The cost performance result is $428/customer, and a 5 year average of $407/customer.

- **Total Cost per Km of Line**
  This measure uses the same total cost that is used in the Cost per Customer calculation above. The total cost is divided by the kilometers of line that E.L.K. operates to serve its customers. E.L.K.'s rate is $31,877 per Km of line, which is consistent with 2014.

Conservation & Demand Management

- **Net Cumulative Energy Savings**
  In 2015, E.L.K.'s CDM plan forecasted a savings of 1,366 MWh. E.L.K. achieved 1,798 MWh savings in 2015. E.L.K. continues to promote all CDM measures and work towards our 2020 target in conjunction with Greensaver. E.L.K. is on track to meet its 2020 target of 16,200 MWh.

Connection of Renewable Generation

- **Renewable Generation Connection Impact Assessments Completed on Time**
  Not Applicable

- **New Micro-embedded Generation Facilities Connected On Time**
  In 2015, E.L.K. connected 8 new micro-embedded generation facilities (microFIT projects of less than 10kW) 100% of time within the prescribed time frame of five business days. The minimum acceptable performance level for this measure is 90% of the time. The process is very streamlines and E.L.K. works with the customer and the electrical safety authority to ensure the project is connected on time.

Financial Ratios

- **Liquidity: Current Ratio (Current Assets/Current Liabilities)**
  As an indicator of financial health, a current ratio that is greater than 1 is considered good as it indicates the company can pay its short term debts and financial obligations. E.L.K.'s current ratio of 2.07 is strong.

- **Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio**
  A debt to equity ratio of 1.5 indicates that a distributor is more highly leveraged than the deemed capital structure. A high debt to equity ratio may indicate that an electricity distributor may have difficulty generating sufficient cash flows to make its debt payments. E.L.K.'s debt to equity ratio of 0.63 is strong.

- **Profitability: Regulatory Return on Equity – Deemed (included in rates)**
  E.L.K.'s current distribution rates were approved by the OEB and include an expected return on equity of 9.12%. E.L.K. Rate is 10.72% which is within the +-300 basis points deadband.

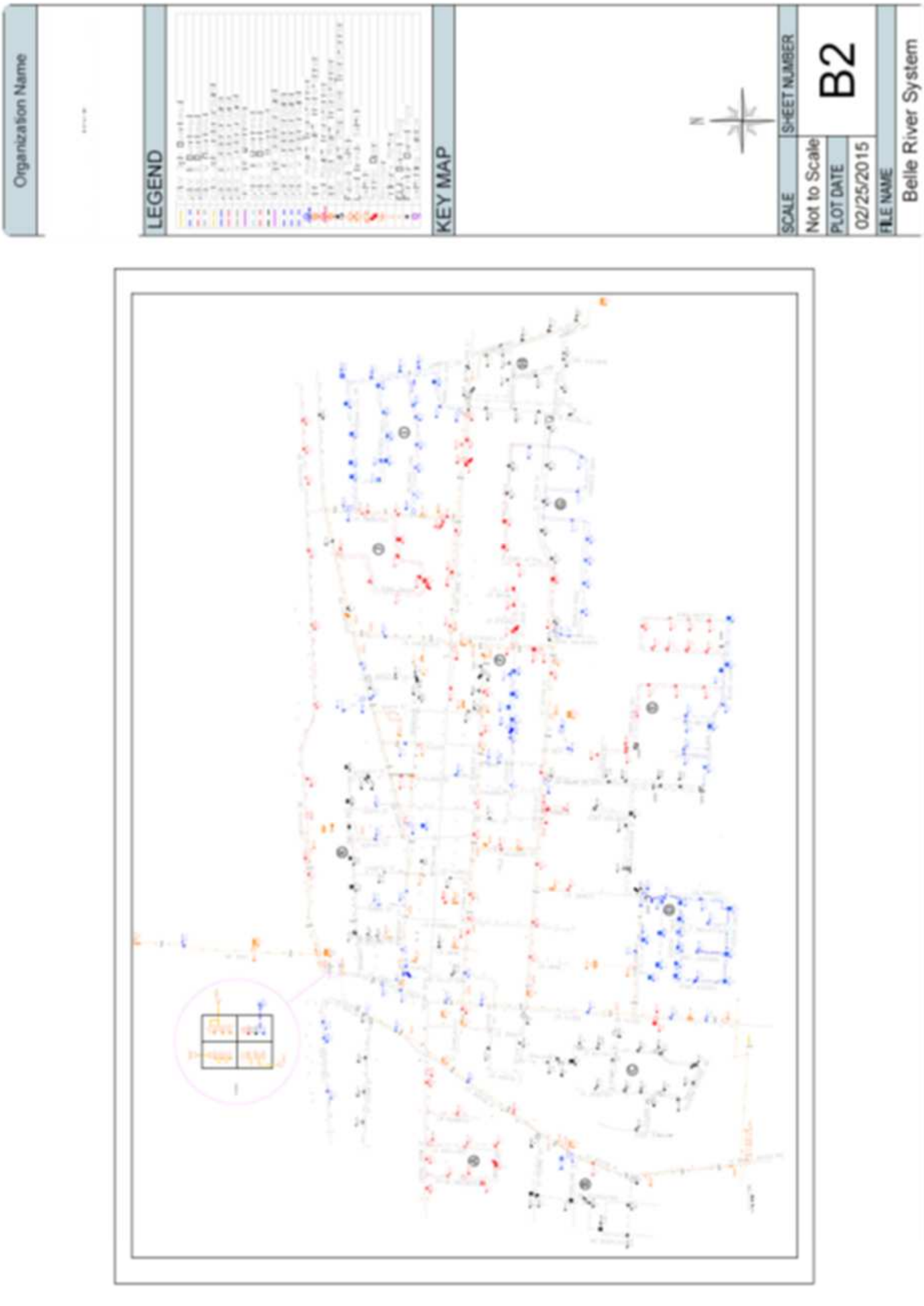
- **Profitability: Regulatory Return on Equity – Achieved**
  E.L.K.'s actual rate is higher than the deemed rate but within the acceptable +-300 basis points deadband.

Note to Readers of 2015 Scorecard MD&A

The information provided by distributors on their future performance (or what can be construed as forward-looking information) may be subject to a number of risks, uncertainties and other factors that may cause actual events, conditions or results to differ materially from historical results or those contemplated by the distributor regarding their future performance. Some of the factors that could cause such differences include legislative or regulatory developments, financial market conditions, general economic conditions and the weather. For these reasons, the information on future performance is intended to be management's best judgement on the reporting date of the performance scorecard, and could be markedly different in the future.

Appendix 1C - Map of Distribution Service Territory and Service Areas

The outlined area represents the County of Essex. The area highlighted in Yellow represents E.L.K.'s Distribution Service Territory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SCALE
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B2
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FILE NAME
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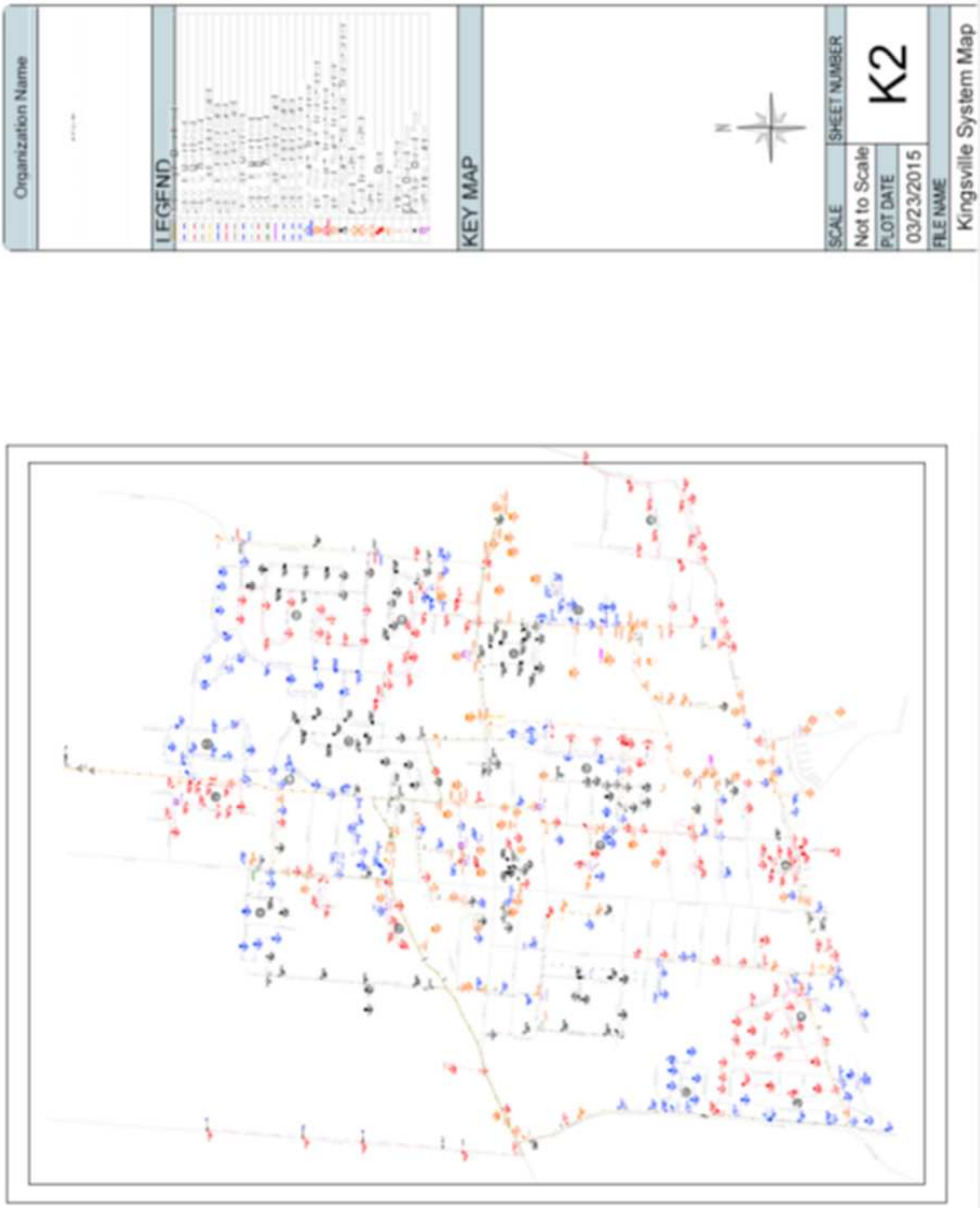
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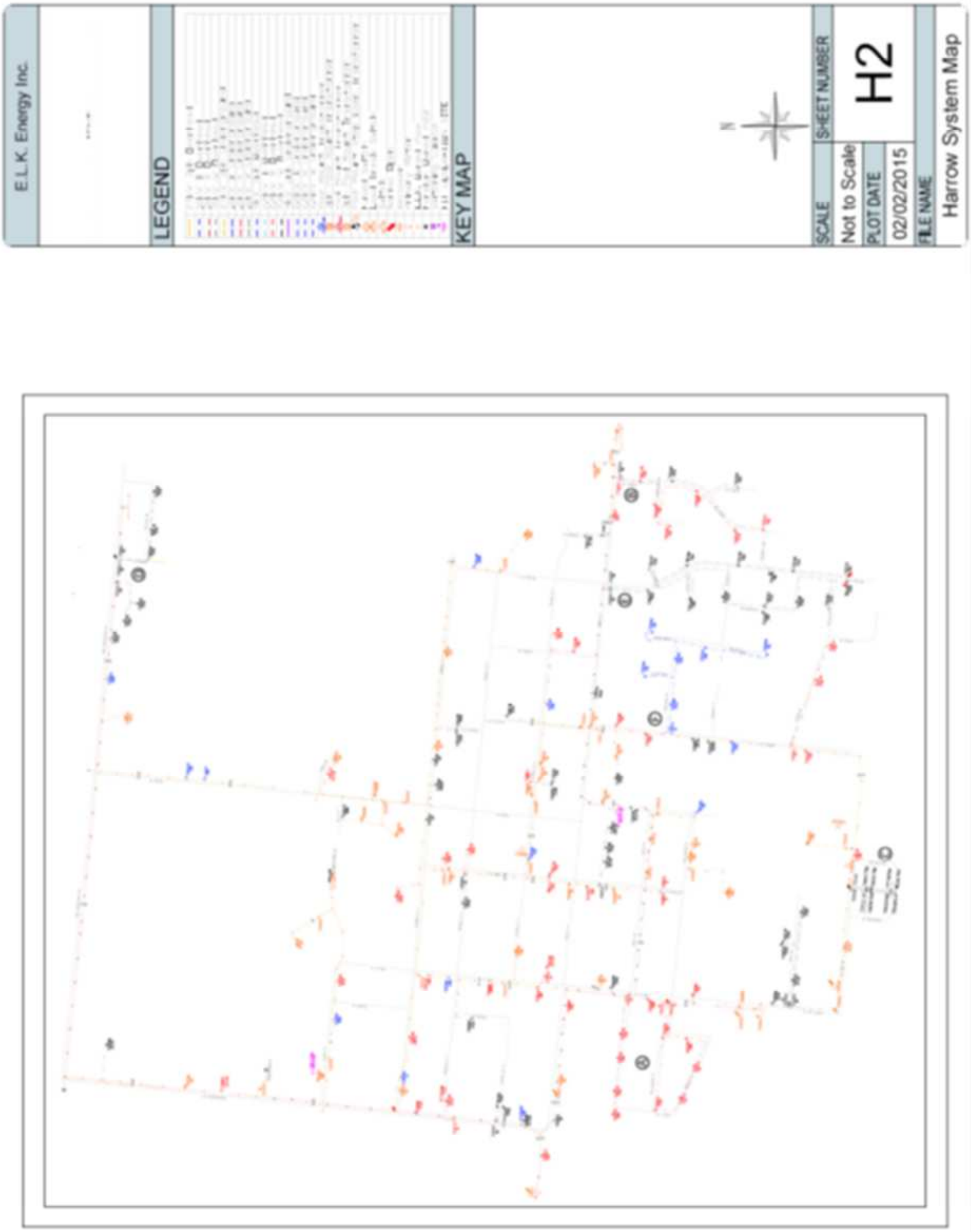
FILE NAME
Kingsville System Map


E.L.K. Energy Inc.
LEGEND
KEY MAP
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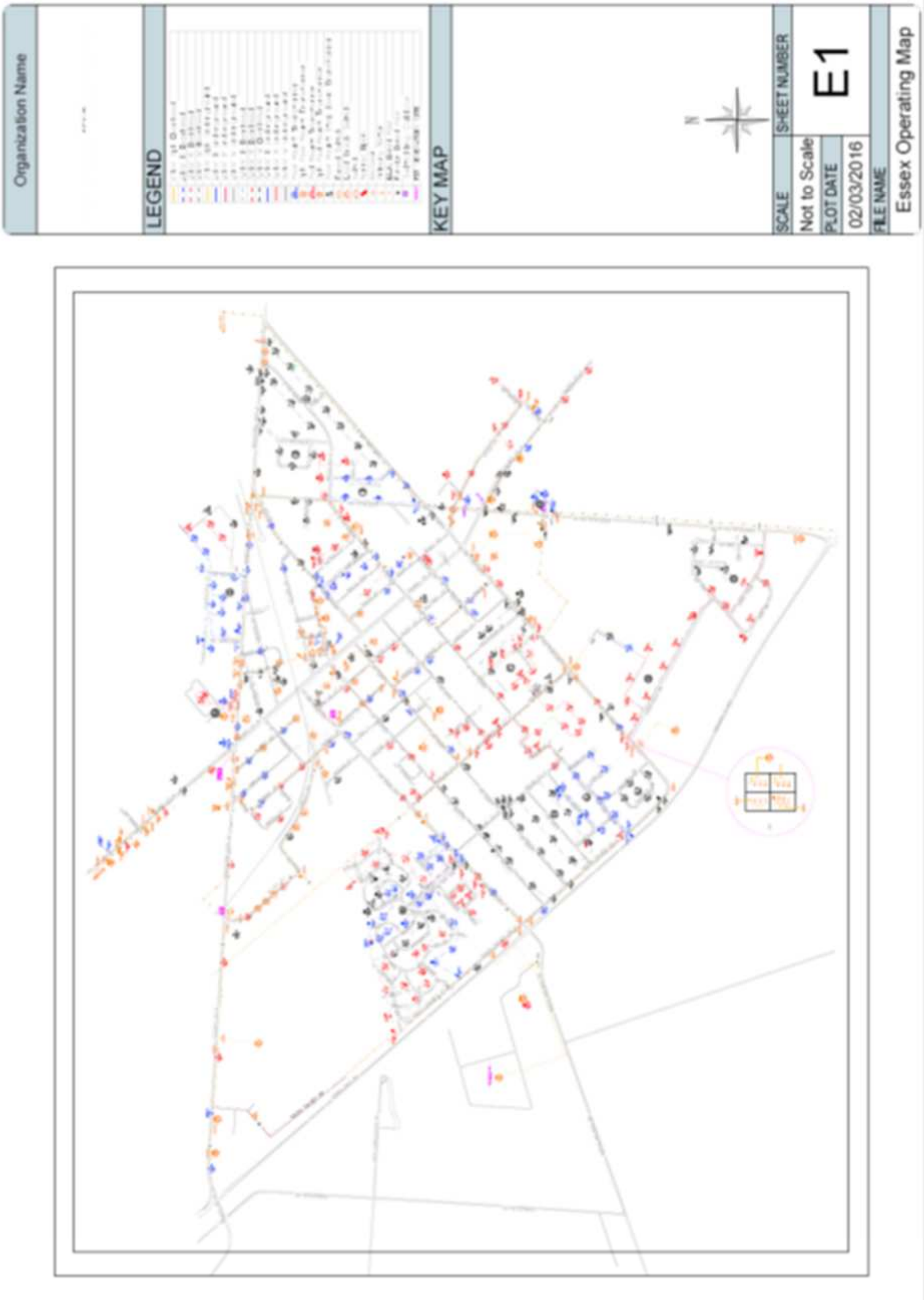
SHEET NUMBER
H2
SCALE
Not to Scale
PLOT DATE
02/02/2015
FILE NAME
Harrow System Map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LEGEND
KEY MAP
N
SCALE
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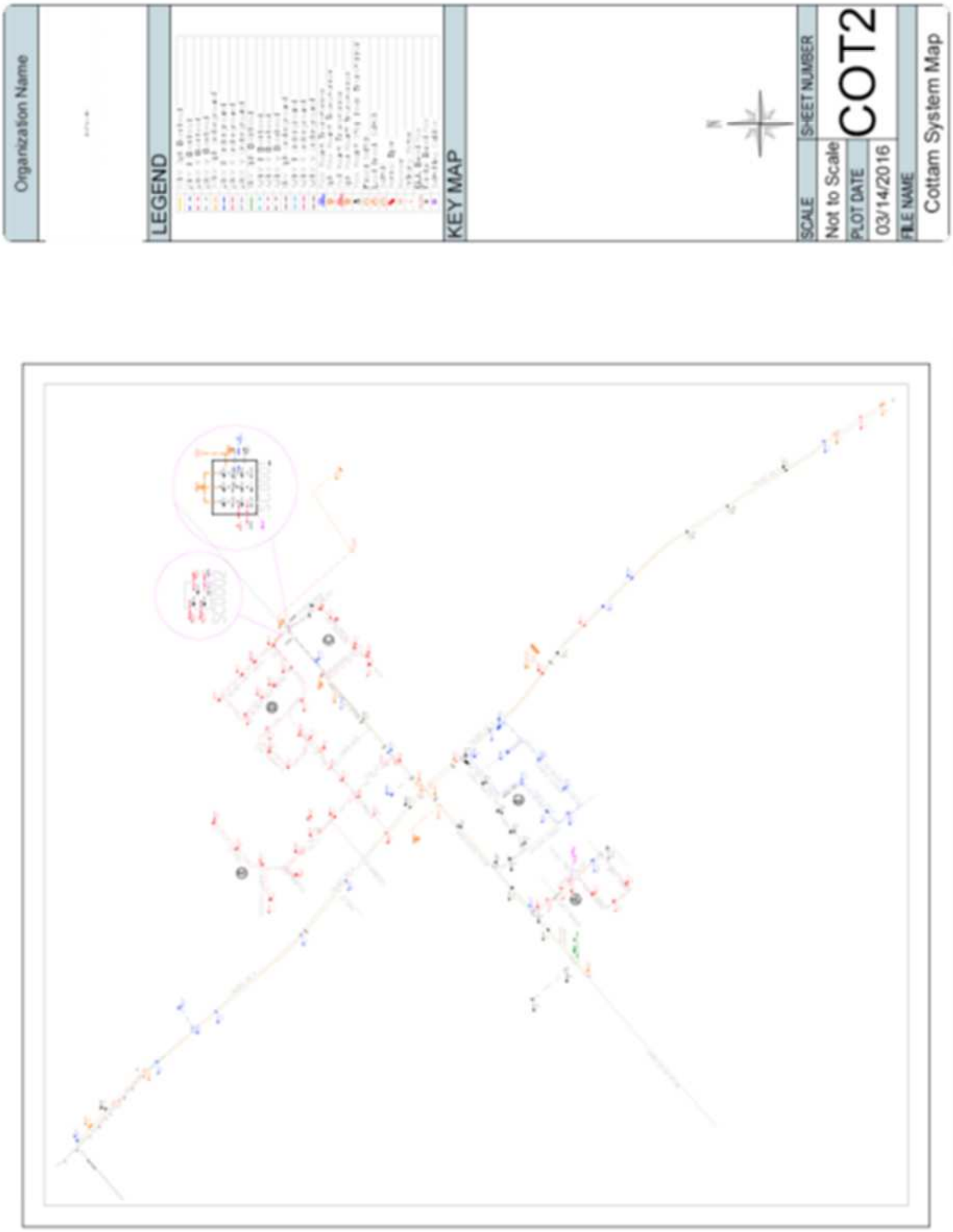
PLOT DATE
02/03/2016
FILE NAME
Essex Operating Map
SHEET NUMBER
E1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LEGEND
KEY MAP
SCALE
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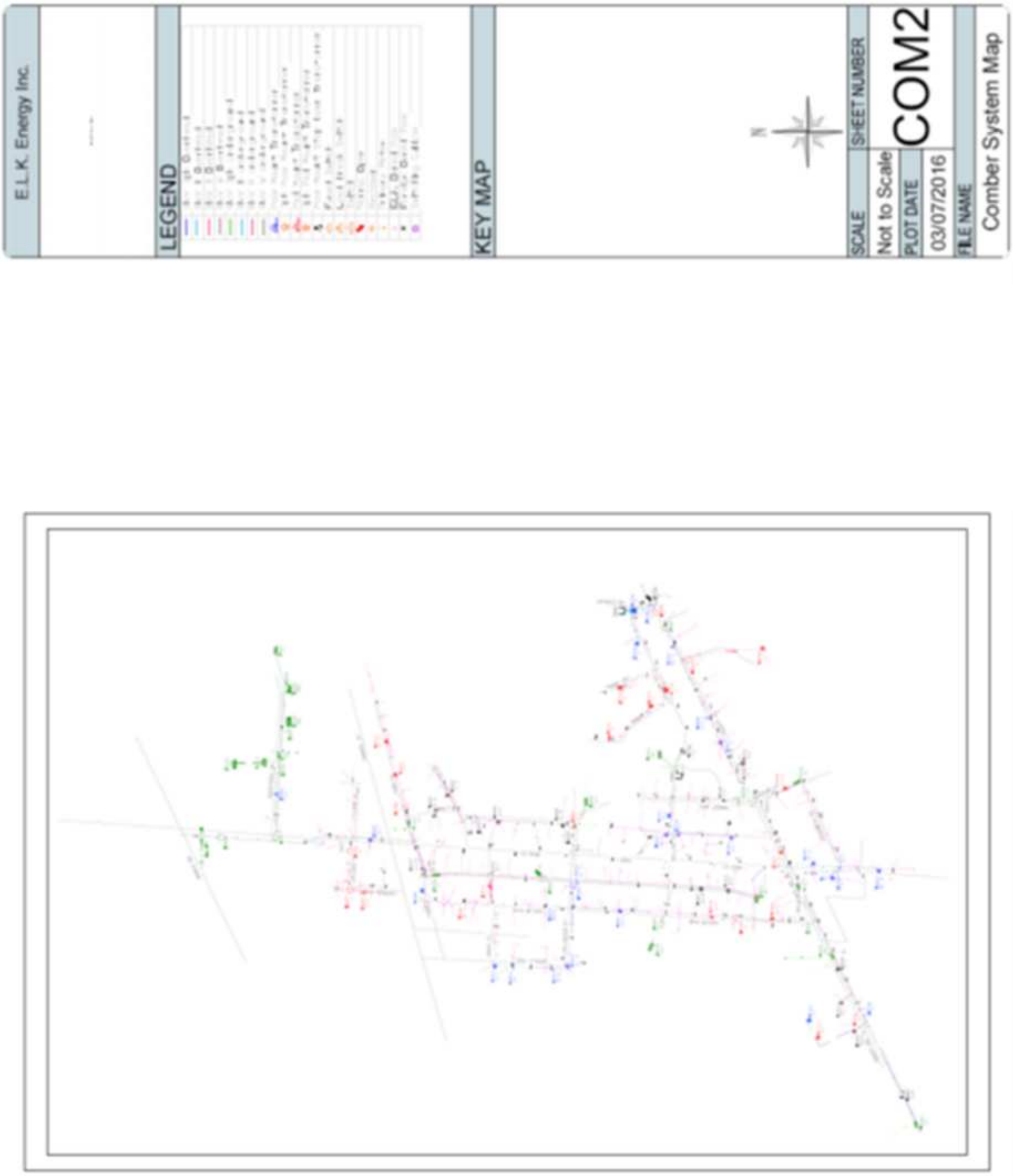
PLOT DATE
03/14/2016
FILE NAME
Cottam System Map
SHEET NUMBER
COT2


E.L.K. Energy Inc.
LEGEND
KEY MAP
N
SHEET NUMBER
COM2
SCALE
Not to Scale
PLOT DATE
03/07/2016
FILE NAME
Comber System Map

Appendix 1D- E.L.K. Oracle Poll Customer Survey Report

E.L.K. Energy

Customer Survey Report

Prepared by:

oraclepoll
RESEARCH

For:

E.L.K.
Energy Inc.

June 2016

TABLE OF CONTENTS

METHODOLOGY & LOGISTICS

Overview

1. This report represents the findings from a telephone survey of E.L.K. Energy customers. The survey was conducted by Oraclepoll Research Ltd for E.L.K. Energy Inc.

2. Included in this report is an Executive Summary of the findings from the survey and the results by individual question.

Study Sample

3. A total of 300 respondents were interviewed. All respondents were screened to ensure that they were 18 years of age or older and one of the persons at their residence that makes payment and other decisions about their power bill.

Survey Method

1. The survey was conducted using computer-assisted techniques of telephone interviewing (CATI) and random number selection. The sample frame was inclusive of private numbers as well as cell phone only households. A total of 20% of all interviews were monitored and the management of Oraclepoll Research Limited supervised 100%.

Logistics

1. Interviews were completed between the days of June 13th to June 19th 2016.

2. Initial calls were made between the hours of 5 p.m. and 9 p.m. Subsequent call backs of no-answers and busy numbers were made on a (staggered) daily rotating basis up to 5 times (from 10 a.m. to 9 p.m.) until contact was made. In addition, telephone interview appointments were attempted with those respondents unable to complete the survey at the time of contact.

Confidence

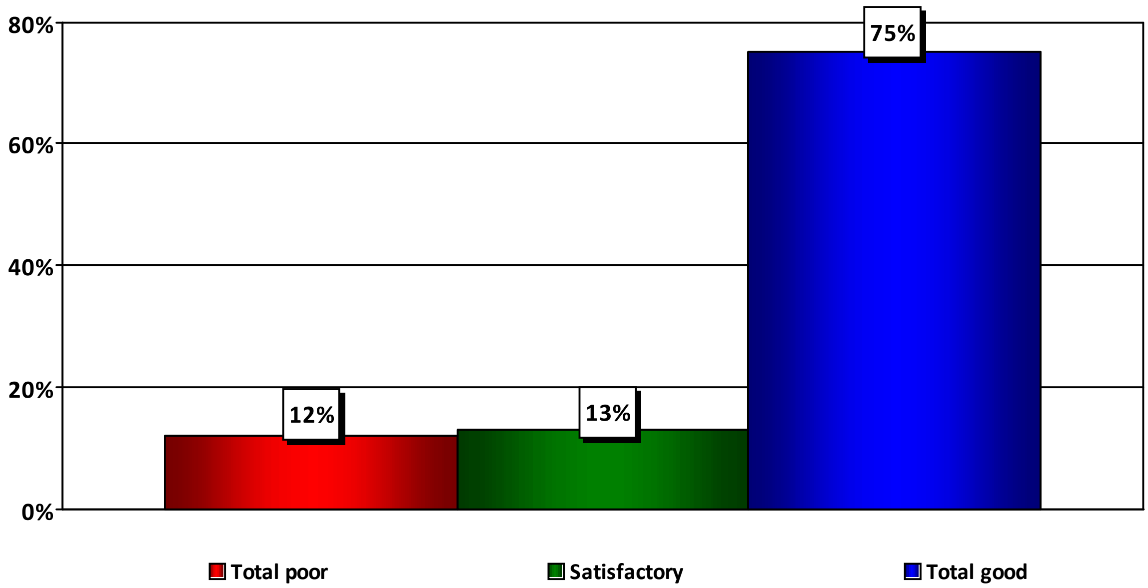
3. The margin of error for the 300-person residential survey is ± 5.6%, 19/20 times.

EXECUTIVE SUMMARY

Overall Satisfaction

Respondents were first asked the following overall satisfaction question.

Q1. "Considering all aspects of being a customer of E.L.K. Energy, how would you rate your overall satisfaction with the company as your electrical services provider?"

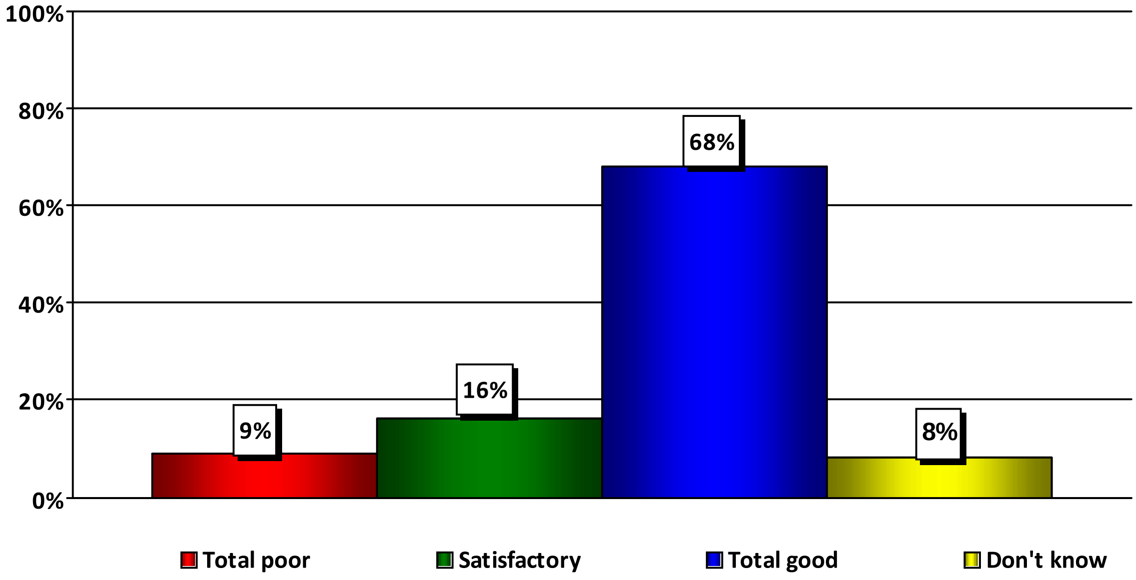


Most or three quarters (75%) of E.L.K customers provided a combined good or very good rating for their overall satisfaction with the LDC as their provider, compared to only 12% that accorded a poor or very poor score while 13% gave a neutral or satisfactory rating.

Comparative Customer Service

Next respondents were asked to rate the customer service provided by E.L.K. in relation to other providers of service.

Q2. "Using a scale from one very poor to five very good, how would you rate E.L.K. Energy's customer service (i.e. being responsible and reliable) compared to other service providers such as your heating fuel, telephone company or your cable TV or satellite provider?"

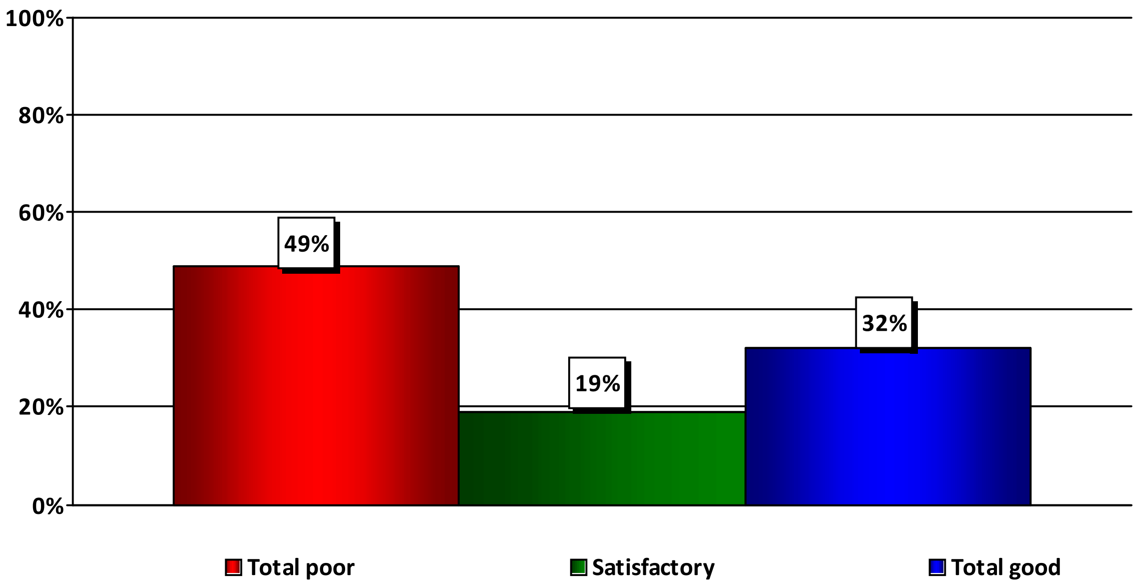


E.L.K. fared well in the comparative customer service rating category as almost seven in ten or 68% rated the LDC as good or very good in comparison to other providers, only 9% as poor or very poor, while 16% gave a satisfactory score and 8% were unsure or did not know.

Price of Electricity – Satisfaction

Customers then were asked to rate their satisfaction with the price that they pay for their electricity.

Q3. "Using a scale from one very poor to five very good, how would you rate your satisfaction with the price that you pay for electricity?"

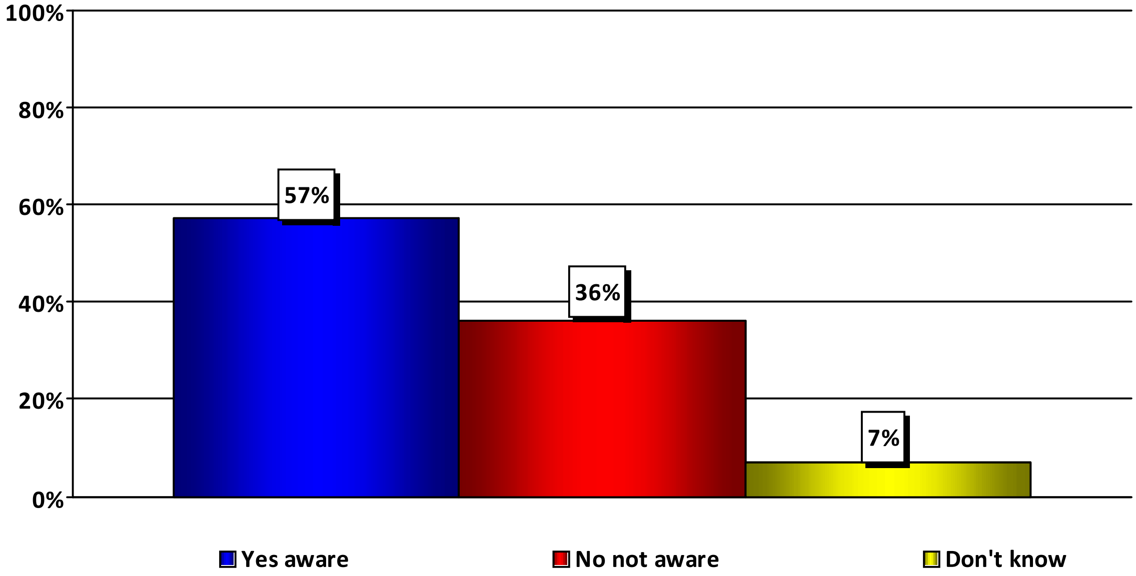


Slightly less than a third of customers or 32% are satisfied (total good rating) with the price that they pay for electricity, while almost half or 49% are dissatisfied (total poor), with 19% being in the middle giving a satisfactory rating in this area.

Energy Bills

An awareness question was asked to customers about the percentage of their bill that E.L.K. accounts for in relation to costs out of their control.

Q4. "Were you aware that your local utility E.L.K. only accounts for approximately 15% of your electricity bill and the remaining 85% relate to transmission, generation and other administrative costs out of its control?"



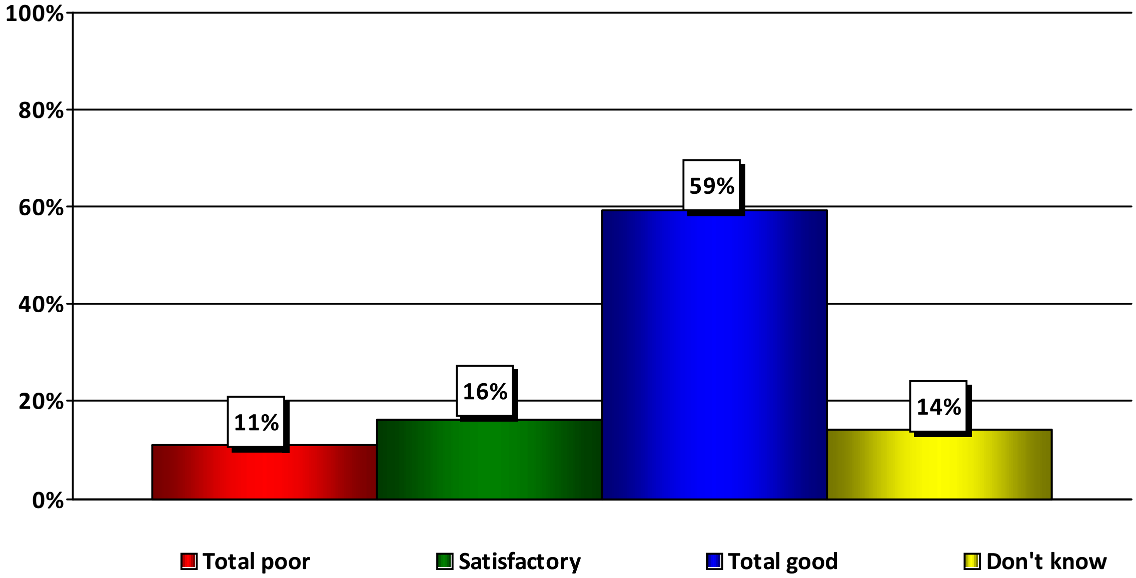
There appears to be a high awareness of the fact that E.L.K accounts for only about 15% of the bill that customers receive as evidenced by the 57% that said yes to the question. A total of 36% were unaware and 7% did not know or were unsure.

Overall value

Respondents were then asked a series of questions and were told by the interviewers to focus on the percentage of their bill (15%) that E.L.K. is responsible for. They were first asked the following question on the overall value that the LDC provides.

"The next set of questions focus on the 15% of your electricity bill that E.L.K. represents."

Q5. "Using the same scale from one very poor to five very good, how would you rate the overall value that E.L.K. Energy provides?"



Despite the high dissatisfaction with the price that they pay for electricity (Q3 – 49%), a majority of customers are satisfied with the overall value that E.L.K. provides in the context of the 15% portion of the electricity bill that the LDC represents. A total of 59% rated the value as good or very good, only 11% as poor or very poor, 16% as satisfactory while 14% said that they did not know.

Customer Service Statements

Two statements related to customer service were read to respondents after which they were asked to rate their level of agreement with each one.

"I am now going to read some brief statements that may be used to describe E.L.K. Energy. Using a scale from one strongly disagree to five strongly agree, please respond to each statement after it is read."

AGREEMENT STATEMENTS	Total Disagree	Neutral	Total Agree	Don't Know
Q6. E.L.K. Energy provides customers with reliable and good service.	9%	7%	83%	1%
Q7. E.L.K. Energy meets its commitment to customers.	7%	9%	82%	1%

E.L.K. rated very highly in terms of the level of agreement provided for each of the two customer service areas. A very strong 83% agreed or strongly agreed that the utility provides customers with reliable and good service and 82% agreed that their LDC meets its commitment to customers.

In an open ended or unaided follow-up question, **respondents were asked what they felt E.L.K Energy could do to better service its customers**. A total of 42% did not know or were unsure of what the utility could better do to service customers and 5% claimed that nothing more was needed. Among those with an opinion, the most named by 32% was to lower rates, while other mentions were varied and included having better communication (6%), repairing or maintaining power lines (4%), having fewer outages (3%), quicker responses to outages (3%), advising customers of what they do (3%), being quicker on service calls (2%), explaining their bills (1%) and providing more reliable service in winter months (1%).

Performance Ratings – Reliability & Outages

Respondents were then asked to rate E.L.K. across four areas related to reliability, responses to outages, scheduling and communicating information about planned outages.

"Using a scale from one very poor to five very good, please rate the performance of E.L.K. Energy in each of the following areas."

RELIABILITY & OUTAGE AREA RATINGS	Total poor	Satisfactory	Very good	Don't know
Q9. The reliability of power supply	7%	14%	78%	1%
Q10. Prompt response(s) to power outages when they occur	15%	10%	62%	13%
Q11. Effectively scheduling planned power outages	21%	11%	42%	26%
Q12. Effectively communicating with customers about planned power interruptions in your area	24%	7%	49%	19%

E.L.K. Energy rated strong and highest for providing a reliable power supply at 78%, next followed by 62% that gave the utility a good or very good score for promptly responding to outages. On the prompt response to outages indicator, only 15% accorded a negative rating of poor or very poor, 10% a satisfactory score, but 13% did not know nor had no opinion.

Satisfaction results were lower in the areas of communicating with customers about planned interruptions at 49% and especially for effectively scheduling planned outages at 42%. Negative ratings were also higher in these two areas (24% & 21% respectively) and a high number of customers were unaware of the LDC's role or performance. A total of 26% were unsure how effective E.L.K. is at scheduling outages and 19% did not know how effective they are at communicating with customers about planned interruptions.

In an open ended follow-up question allowing for verbatim responses, customers were asked about **their preferred method to receive information from E.L.K during outages**. Telephone would be the most preferred choice to get information during an outage by almost half of customers or 49%. The next most named source was email (16%), followed by radio (14%), social media (8%), texts (4%), the E.L.K. website (4%) and a Smartphone app (2%). Only 5% did not know nor had no preference.

Price Balance

A question was asked to respondents where they could choose from five options on the issue of balancing rates or prices in relation to the number of outages that they would tolerate.

Q14. I am going to ask your opinion on the issue of balancing the price you pay for maintenance and renewal of your local electricity infrastructure (i.e. "keeping the lights on"). Please pick one of the following five options, reflecting your preference. Do you prefer…

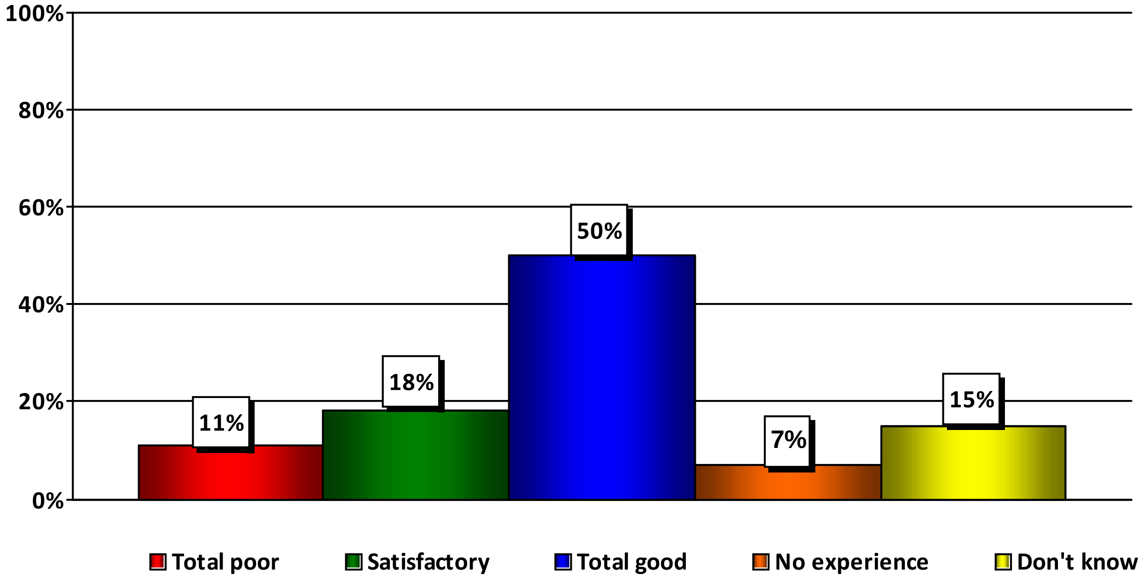
		Percent
	1-the lowest rates and potentially regular outages	7%
	2- lower rates and potentially occasional outages	22%
	3-a balance between rates and outages	47%
	4- higher rates and potentially fewer outages	5%
	5-the highest rates and potentially a lower number of outages	4%
	Don't know	16%

Most customer responses fell in the middle where they would prefer a balance between rates and the number of outages (47%). Only 9% said that they would want higher rates with potentially fewer outages, with 5% preferring the highest rates and lowest possible outages and 4% higher rates and fewer outages. A total of 29% would prefer lower rates tolerating occasional outages, with 22% preferring lower rates with occasional outages and 7% the lowest rates with the possibility of frequent outages.

Communication Rating

Respondents then rated the performance of E.L.K. in communicating with customers.

Q15. "Please rate the performance of E.L.K. Energy in communicating with its customers using a scale from one very poor to five very good."



Results are mixed on the issue of communicating with customers as 50% provided a total good rating, 11% a poor one 18% gave the utility a satisfactory grade and 22% either said they had no experience in this area or did not know.

In an open ended unaided question allowing for multiple responses, customers were asked about their **preferred method to have E.L.K. Energy communicate information to them**. Direct mail accounted for 27% of all responses, followed by 16% that named bill inserts, 16% emails, 9% information on the company website and 8% social media. Other mentions included text messages (7%), radio (6%), telephone (5%), newspapers ads (4%) and through the customer newsletter (3%).

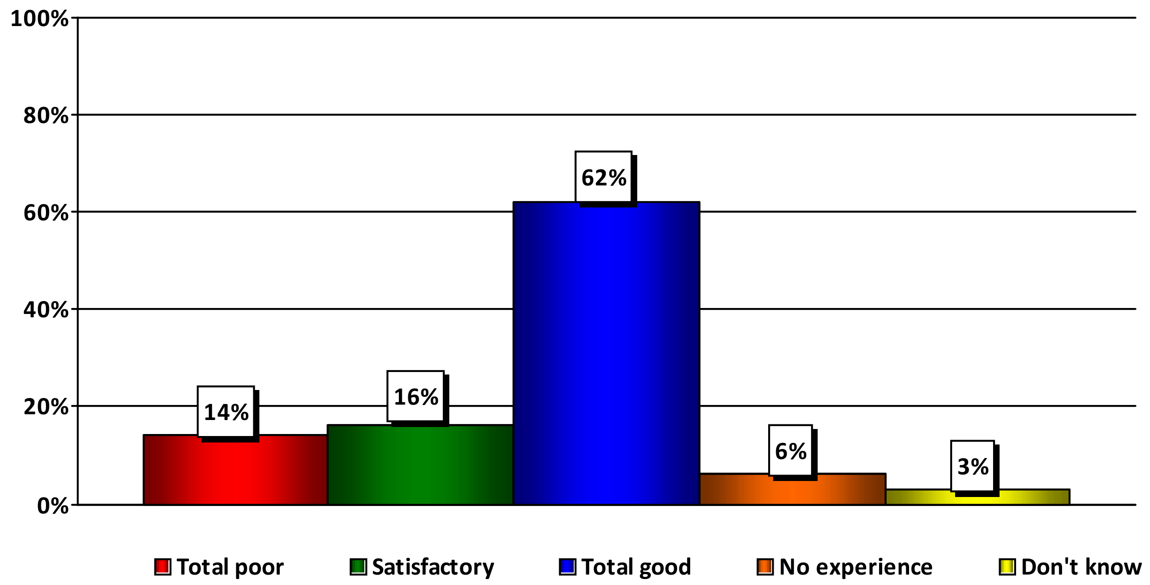
Another unaided question allowing for multiple responses probed respondents about their **preferred method to have them communicate with the company**. On this indicator telephone was mentioned by a 51% majority, while email followed at 30%. Other responses included in person visits at the office (6%), a link on the company website (5%), social media (3%) and regular mail (2%). A total of 3% did not know nor had no preference.

Rating Bill Inserts

Next respondents were asked to rate E.L.K. bill inserts and electronic bill links.

Q18. "From time to time, E.L.K. Energy attaches information to your bill in the form of a bill insert, or for electronic bills in the form of a link. Using a scale from one very poor to five

very good, how you would rate the overall quality of all of the bill inserts and other printed materials you have received from E.L.K. Energy?"

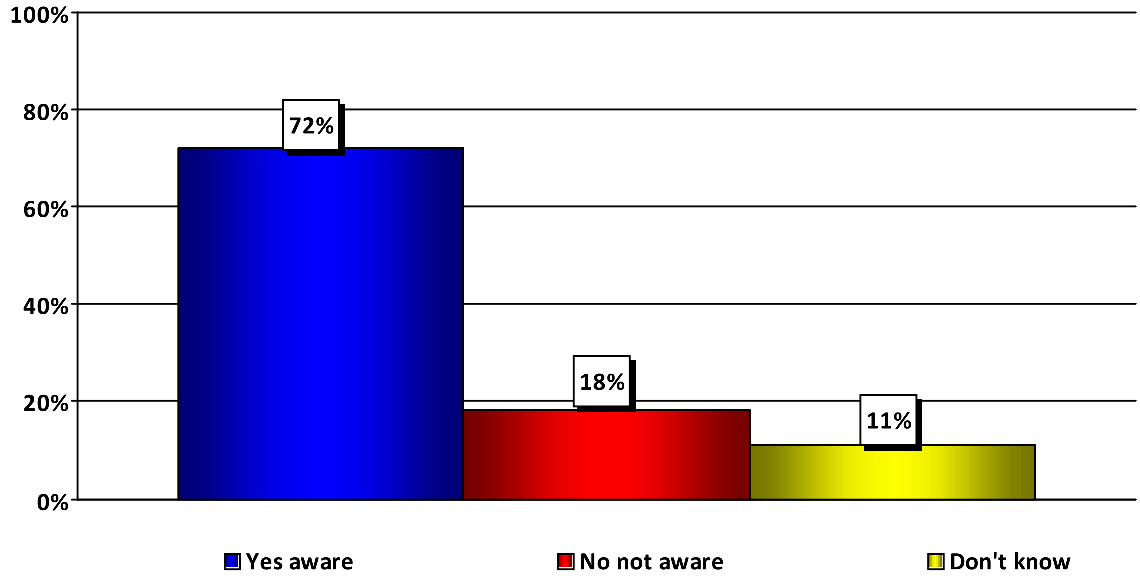


Most or 62% had a favourable opinion (good & very good) of bill inserts or electronic bill links, while a lesser 14% had an unfavourable opinion (poor or very poor). A total of 16% gave bill inserts a satisfactory grade and 6% said that they had no experience with bill insets or links and 3% did not know.

OEB and Regulation of Rates

An awareness question was asked about the Ontario Energy Board and its role in regulating the price that E.L.K can charge for electricity.

Q19. "Were you aware that E.L.K.'s energy rates or the price that it charges for electricity is regulated by the Ontario Energy Board (OEB)?"



A 72% majority claimed to be aware of the role of the OEB in regulation energy prices, 18% were unaware and 11% were unsure.

Capital Expenditure Plan – Support

The following preamble describing the capital expenditure plan was read to respondents after which they were asked if they supported the initiative.

E.L.K. Energy's electrical infrastructure dates back to the 1950's and some are now approaching the end of their useful life, potentially impacting the reliability of electricity delivery. It is estimated that 38% of all power outages are caused by equipment failures.

As a result, E.L.K.'s Operations Department have recommended spending approximately $1.3 million on capital expenditures in 2017, which is about the same that was spent in 2015. These capital expenditures include inspections and replacement of poles and lines that are nearing this end of their useful lives, connecting new customers to the electricity grid, implementing smart switching and monitoring equipment to minimize outage times, computer system upgrades, office improvements and the replacement of aged fleet vehicles.

Q20. "Do you support this capital expenditure plan by E.L.K.?"

Yes, I support this plan recommended by E.L.K.'s Operations Department	76%
No, I do not support the plan recommended by E.L.K.'s Operations Department	3%
No opinion (Don't care)	8%
Don't know	12%

More than three-quarters majority or 76% (n=229) support the plan recommended by E.L.K.'s Operations Department. A very low 3% (n=10) of customers do not support this plan while two in ten (n=61) have no opinion on this issue (8%) or are unsure (12%).

When supporters were asked their main **reason for backing the plan**, 26% cited the need for reliable service or fewer outages, 21% said it is needed for the future, 11% that maintenance is required, 10% that upgrades are required and 7% that all utilities need to modernize. Other mentions included that it will save money in the long run (6%), that E.L.K. has managed well in the past (5%) and that this plan has worked well elsewhere (3%), while 11% did not know.

Among opponents (n=10), comments for not backing the plan included the belief the plan will be too costly (n=3), that the LDC has already spent money on upgrades (n=3), that rates will increase (n=2), while n=2 were unsure.

Feedback from those unsure or with no opinion (n=61) centred mostly on the need for more information (44%), having nothing to compare it to (n=7), needing more time to consider the issue (8%) and to be sure that upgrades are required (3%). A high 33% did not know nor had no comment.

Capital Expenditure Plan – Rates

They were next asked if they would support the capital expenditure plan even if it resulted in an increase in their monthly bill.

Q22. "The recommended capital program will ultimately have an impact on rates or customers' bills. Would you support this infrastructure renewal plan even if it resulted in an increase in your monthly energy bill?"

Yes, I fully support the Operations Department recommendations	18%
Yes, I support the Operations Department recommendations, provided the bill increases are modest	39%
No, I do not support any bill increases (even if this means more frequent and longer power outages)	29%
Don't know	14%

Presented with the scenario of increased rates under the plan, 57% would still support it with 18% fully backing it and 39% if the rise in price is modest. A total of 29% do not support the bill increases even if it would result in more and longer outages.

Operations and Maintenance Plan – Support

The following preamble describing the operations and maintenance plan was read to respondents after which they were asked if they supported the initiative.

E.L.K. operating budget also impacts on the customer bills including the costs for managing and maintaining the system. It's operating budget for 2017 is currently planned to increase to approximately 3.3 M, which is about 20% higher than prior years. The increases are primarily due to succession planning, and reorganizing staffing levels in order to provide customers with a better overall customer experience. E.L.K.'s outside service will increase as well due to additional customer engagement efforts (like this survey). In addition, it is focused on updating and maintaining its overhead and underground lines, feeders and meter maintenance.

Q23. "Do you support this operations and maintenance plan by E.L.K.?"

Yes, I support the plan recommended by E.L.K.	77%
No, I do not support the operations and maintenance plan by E.L.K.	3%
No opinion (Don't care)	3%
Don't know	17%

Support for the operations and maintenance plan is high at 77% (n=230), with opposition very low at 3% (n=10), while 20% (n=60) did not know (17%) or had no opinion (3%).

The main **reason that supporters provided for being behind the plan** included the belief it is a good idea and that they support it (40%), that it is needed for improved service (19%), that upgrades or improvements are required (15%), to reduced outages or surges (6%) and that underground lines are a good idea (3%). 17% did not know nor had no opinion.

Among those not supporting the plan (n=10), there were n=5 that cited the belief that rates will increase, n=2 that it is too costly, while n=3 did not know.

When **feedback was solicited from the (n=60) that had no opinion or did not know**, a high 35% were still unsure, while 27% said that they needed more information on the issue and 20% that they wanted to know details on how the money would be spent (20%). Other comments included needing to be sure that upgrades were necessary (8%), requiring more time to consider the matter (7%) and having nothing in context to compare this issue to (3%).

Operations and Maintenance Plan – Rates

They were next asked if they would support the operations and maintenance plan even if it resulted in an increase in their monthly bill.

Q25. "The operations and maintenance plan will ultimately have an impact on rates or customers' bills. Would you support this plan even if it resulted in an increase in your monthly energy bill?"

1-I fully support the operations and maintenance plan	22%
2- Yes, I support the operations and maintenance plan, provided the bill increases are modest	47%
3- No, I do not support the operations and maintenance plan (even if it improves customer service)	21%
Don't know	10%

Support for the operations and maintenance plan is still high at 69% even with the prospect of increased monthly bills. A total of 22% fully support the initiative and 47% would be behind it if rate increases were modest. There are 21% that do not support the plan even if customer service would be improved and 10% were undecided.

RESULTS BY QUESTION

Q1. Considering all aspects of being a customer of E.L.K. Energy, how would you rate your overall satisfaction with the company as your electrical services provider? Please respond using a scale from one very poor to five very good.

	Frequency	Percent
1-very poor	9	3.0
2-poor	27	9.0
3-satisfactory	40	13.3
4-good	106	35.3
5-very good	118	39.3
Total	300	100.0

Q1. Comments

	Frequency
Power outages / frequent outages	14
Power outages are short / power restored quickly	7
Cost of energy keeps rising	5
Good service / satisfied	5
There are power surges	3

Q2. Using a scale from one very poor to five very good, how would you rate E.L.K. Energy's customer service (i.e. being responsible and reliable) compared to other service providers such as your heating fuel, Telephone Company or your cable TV or satellite provider?

	Frequency	Percent
1-very poor	15	5.0
2-poor	11	3.7
3-satisfactory	48	16.0
4-good	75	25.0
5-very good	128	42.7
Don't know	23	7.7
Total	300	100.0

Q2. Comments

	Frequency
Have not dealt with them / limited dealings	13
No problems	10
There are many / frequent outages	8
Service is good	4
Quick to restore service	2
Cost of energy keeps rising	2

Q3. Using a scale from one very poor to five very good, how would you rate your satisfaction with the price that you pay for electricity?

	Frequency	Percent
1-very poor	107	35.7
2-poor	39	13.0
3-satisfactory	58	19.3
4-good	53	17.7
5-very good	43	14.3
Total	300	100.0

Q3. Comments

	Frequency
Rates keep going up / too quickly	22
Don't agree with time of use pricing	9

Conservation still doesn't help with bills	4
Dislike smart meters	3
Government waste & mismanagement cause high prices	2

Q4. Were you aware that your local utility E.L.K. only accounts for approximately 15% of your electricity bill and the remaining 85% relate to transmission, generation and other administrative costs out of its control?

	Frequency	Percent
Yes aware	171	57.0
No unaware	108	36.0
Don't know	21	7.0
Total	300	100.0

The next set of questions focus on the 15% of your electricity bill that E.L.K. represents.

Q5. Using the same scale from one very poor to five very good, how would you rate the overall value that E.L.K. Energy provides?

	Frequency	Percent
1-very poor	18	6.0
2-poor	16	5.3
3-satisfactory	47	15.7
4-good	103	34.3
5-very good	73	24.3
Don't know	43	14.3
Total	300	100.0

Q5. Comments

	Frequency
Satisfied / pleased	11
Not sure what they do	8
Rates are too high / rising too quickly	6
Doing the best they can	3

I am now going to read some brief statements that may be used to describe E.L.K. Energy. Using a scale from one strongly disagree to five strongly agree, please respond to each statement after it is read.

Q6. E.L.K. Energy provides customers with reliable and good service

	Frequency	Percent
1-strongly disagree	10	3.3
2-somewhat disagree	17	5.7
3-neither agree nor disagree	22	7.3
4-somewhat agree	132	44.0
5-strongly agree	117	39.0
Don't know	2	.7
Total	300	100.0

Q7. E.L.K. Energy meets its commitment to customers

	Frequency	Percent
1-strongly disagree	9	3.0
2-somewhat disagree	13	4.3
3-neither agree nor disagree	28	9.3
4-somewhat agree	118	39.3
5-strongly agree	129	43.0
Don't know	3	1.0
Total	300	100.0

Q8. What can E.L.K. Energy do to better service its customers?

	Frequency	Valid Percent
Don't know	125	41.7
Lower rates	95	31.7
More / better communication	17	5.7
Nothing more	14	4.7
Power lines need to be repaired / maintained	11	3.7
Fewer power outages	9	3.0
More information about what they do / services they offer	8	2.7
Quicker responses to outages	8	2.7
Arrive on time / quicker for service calls	6	2.0
Explain the cost of service / bills	4	1.3
More reliable service in winter	2	.7
How they differ from Hydro One	1	.3
Total	300	100.0

Using a scale from one very poor to five very good, please rate the performance of E.L.K. Energy in each of the following areas.

Q9. The reliability of power supply

	Frequency	Valid Percent
1-very poor	9	3.0
2-poor	11	3.7
3-satisfactory	42	14.0
4-good	117	39.0
5-very good	118	39.3
Don't know	3	1.0
Total	300	100.0

Q10. Prompt response(s) to power outages when they occur

	Frequency	Valid Percent
1-very poor	14	4.7
2-poor	31	10.3
3-satisfactory	30	10.0
4-good	54	18.0
5-very good	132	44.0
Don't know	39	13.0
Total	300	100.0

Q11. Effectively scheduling planned power outages

	Frequency	Valid Percent
1-very poor	26	8.7
2-poor	38	12.7
3-satisfactory	33	11.0
4-good	72	24.0
5-very good	54	18.0
Don't know	77	25.7
Total	300	100.0

Q12. Effectively communicating with customers about planned power interruptions in your area

	Frequency	Valid Percent
1-very poor	35	11.7
2-poor	37	12.3

3-satisfactory	22	7.3
4-good	86	28.7
5-very good	62	20.7
Don't know	58	19.3
Total	300	100.0

Q12. Comments

	Frequency
Need better communication	21
Do not receive information on planned outages	16
Power is reliable	8
Too many outages	6
Need quicker responses to outages	5
Quick to restore power	3
Total	300

Q13. What is your preferred method to receive information from E.L.K. during outages?

	Frequency	Valid Percent
Telephone	148	49.3
Email	47	15.7
Radio	41	13.7
Social media	24	8.0
Don't know/no preference	14	4.7
Text messages	12	4.0
E.L.K. Energy Website	9	3.0
Smartphone App	5	1.7
Total	300	100.0

Q14. I am going to ask your opinion on the issue of balancing the price you pay for maintenance and renewal of your local electricity infrastructure (i.e. "keeping the lights on"). Please pick one of the following five options, reflecting your preference.

	Frequency	Valid Percent
1-the lowest rates and potentially regular outages	20	6.7
2- lower rates and potentially occasional outages	65	21.7
3-a balance between rates and outages	140	46.7
4- higher rates and potentially	15	5.0

fewer outages		
5-the highest rates and potentially a lower number of outage	11	3.7
Don't know	49	16.3
Total	300	100.0

Q15. Please rate the performance of E.L.K. Energy in communicating with its customers using a scale from one very poor to five very good.

	Frequency	Percent
1-very poor	11	3.7
2-poor	22	7.3
3-satisfactory	54	18.0
4-good	84	28.0
5-very good	65	21.7
No experience	20	6.7
Don't know	44	14.7
Total	300	100.0

Q16. What is your preferred method to have E.L.K. Energy communicate information to you?

	Multiple Responses	
	N	Percent
Bill inserts	77	15.9%
Direct mail	130	26.9%
Newspaper advertising	17	3.5%
E.L.K. Energy Website	43	8.9%
E-mail from the company	76	15.7%
Customer newsletter	12	2.5%
Radio	30	6.2%
Social media, such as Facebook or Twitter	38	7.9%
Telephone	26	5.4%
Text message	34	7.0%
Total	483	100.0%

Q17. And as a customer, what is your preferred method that you would like to communicate with E.L.K. Energy?

	Multiple Responses	
	N	Percent
Telephone	187	50.5%

Email	112	30.3%
Social media	12	3.2%
Link or form on E.L.K. Energy Website	18	4.9%
Regular mail	9	2.4%
In person at office	21	5.7%
Don't know / no preference	11	3.0%
Total	370	100.0%

Q18. From time to time, E.L.K. Energy attaches information to your bill in the form of a bill insert, or for electronic bill, in the form of a link. Using a scale from one very poor to five very good, how you would rate the overall quality of all of the bill inserts and other printed materials you have received from E.L.K. Energy?

	Frequency	Percent
1-very poor	32	10.7
2-poor	9	3.0
3-satisfactory	47	15.7
4-good	96	32.0
5-very good	89	29.7
No experience	19	6.3
Don't know	8	2.7
Total	300	100.0

Q19. Were you aware that E.L.K's energy rates or the price that it charges for electricity is regulated by the Ontario Energy Board (OEB)?

	Frequency	Percent
Yes aware	215	71.7
No unaware	53	17.7
Don't know	32	10.7
Total	300	100.0

E.L.K. Energy's electrical infrastructure dates back to the 1950's and some are now approaching the end of their useful life, potentially impacting the reliability of electricity delivery. It is estimated that 38% of all power outages are caused by equipment failures.

As a result, E.L.K.'s Operations Department have recommended spending approximately $1.3 million on capital expenditures in 2017, which is about the same that was spent in 2015. These capital expenditures include inspections and replacement of poles and lines that are nearing the end of their useful lives, connecting new customers to the electricity grid, implementing smart switching and monitoring equipment to minimize outage times, computer system upgrades, office improvements and the replacement of aged fleet vehicles.

Q20. Do you support this capital expenditure plan by E.L.K?

	Frequency	Percent
Yes, I support this plan recommended by E.L.K.'s Operations Department	229	76.3
No, I do not support the plan recommended by E.L.K.'s Operations Department	10	3.3
No opinion (Don't care)	25	8.3
Don't know	36	12.0
Total	300	100.0

IF YES ASK Q21A

IF NO ASK Q21B

IF NO OPINION / DON'T KNOW ASK Q21C

Q21a. Can you tell me why you support the plan?

	Frequency	Percent
Need for reliable service / less outages	59	25.8
It is needed for the future	48	21.0
The maintenance is needed	26	11.4
Don't know	26	11.4
Needs to be upgraded	24	10.5
All companies need to modernize / update	15	6.6
Save money in the long run if done now	13	5.7
ELK has done a good job	11	4.8
This plan has worked elsewhere	7	3.1
Total	229	100.0

Q21b. Can you tell me why you do not support the plan?

	Frequency	Percent
They have already upgraded	3	30.0
Too costly	3	30.0
Rates will increase	2	20.0
Don't know	2	20.0
Total	10	100.0

Q21c. Can you tell me why you do not know / have no opinion?

	Frequency	Percent
Don't have enough information / need more information	27	44.3
Don't know	20	32.8
Have nothing to compare it to	7	11.5
Need more time to consider it	5	8.2
Need to be sure infrastructure needs upgrading	2	3.3
Total	61	100.0

Q22. The recommended capital program will ultimately have an impact on rates or customers' bills. Would you support this infrastructure renewal plan even if it resulted in an increase in your monthly energy bill?

	Frequency	Percent
1-Yes, I fully support the Operations Department recommendations	55	18.3
2-Yes, I support the Operations Department recommendations, provided the bill increases are modest	117	39.0
3-No, I do not support any bill increase (even if this means more frequent and longer power outages)	87	29.0
Don't know	41	13.7
Total	300	100.0

Q22. Comments

	Frequency
Don't want rate increases	19
Depends on the rate increase	11
It needs to be done	10
Money / bill payments should have been put towards this already	7
Regular maintenance should have been completed	6
Customers should not have to pay for this	4

E.L.K.'s operating budget also impacts on the customer bills including the costs for managing and maintaining the system. Its operating budget for 2017 is currently planned to increase to approximately 3.3M, which is about 20% higher than prior years. The increases are primarily due to succession planning, and reorganizing staffing levels in order to provide customers with a better overall customer experience. E.L.K.'s outside service will increase as well due to additional customer engagement efforts (like this survey). In addition, it is focused on updating and maintaining its overhead and underground lines, feeders and meter maintenance.

Q23. Do you support this operations and maintenance plan by E.L.K?

	Frequency	Percent
Yes, I support this plan recommended by E.L.K.	230	76.7
No, I do not support the operations and maintenance plan by E.L.K.	10	3.3
No opinion (Don't care)	9	3.0
Don't know	51	17.0
Total	300	100.0

IF YES ASK Q24A

IF NO ASK Q24B

IF NO OPINION / DON'T KNOW ASK Q24C

Q24a. Can you tell me why you support the operations and maintenance plan?

	Frequency	Percent
Support the plan / good idea	93	40.4
Needed for reliable / improved service	43	18.7
Don't know	38	16.5
Needs to be upgraded	35	15.2
For less outages / surges	13	5.7
Underground is a good idea	8	3.5
Total	230	100.0

Q24b. Can you tell me why you do not support the operations and maintenance plan?

	Frequency	Percent
Rates will increase	5	50.0
Don't know	3	30.0
Too costly	2	20.0
Total	10	100.0

Q24c. Can you tell me why you do not know / have no opinion?

	Frequency	Percent

Don't know	21	35.0
Don't have enough information / need more information	16	26.7
Need details on how money will be spent	12	20.0
Need to be sure infrastructure needs upgrading	5	8.3
Need more time to consider it	4	6.7
Have nothing to compare it to	2	3.3
Total	60	100.0

Q25. The operations and maintenance plan will ultimately have an impact on rates or customers' bills. Would you support this plan even if it resulted in an increase in your monthly energy bill?

	Frequency	Percent
1-I fully support the operations and maintenance plan	66	22.0
2-Yes, I support the operations and maintenance plan, provided the bill increases are modest	140	46.7
3-No, I do not support the operations and maintenance plan (even if it improves customer service)	64	21.3
Don't know	30	10.0
Total	300	100.0

Appendix 1E- 2015 Audited Financial Statements

Non-Consolidated Financial Statements of

E.L.K. ENERGY INC.

Year ended December 31, 2015

KPMG

KPMG LLP
618 Greenwood Centre
3200 Deziel Drive
Windsor ON N8W 5K8
Canada

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of E.L.K. Energy Inc.

We have audited the accompanying non-consolidated financial statements of E.L.K. Energy Inc., which comprise the non-consolidated statements of financial position as at December 31, 2015, December 31, 2014 and January 1, 2014, the non-consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2015, and December 31, 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Non-Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the non-consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Opinion

In our opinion, the non-consolidated financial statements present fairly, in all material respects, the non-consolidated financial position of E.L.K. Energy Inc. as at December 31, 2015, December 31, 2014 and January 1, 2014, and its non-consolidated financial performance and its non-consolidated cash flows for the years ended December 31, 2015, and December 31, 2014 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

April 28, 2016
Windsor, Canada

E.L.K. ENERGY INC.

Non-Consolidated Statements of Financial Position

	Note	December 31, 2015	December 31, 2014	January 1, 2014
Assets				
Current assets				
Cash and cash equivalents	5	$ 3,003,064	$ 3,484,026	$ 6,166,583
Accounts receivable	6	1,672,976	1,208,392	1,721,551
Due from related parties	21	139,469	262,509	285,349
Unbilled revenue		4,176,959	4,178,403	4,134,838
Income taxes receivable		22,766	84,067	7,480
Inventory	7	296,504	297,798	247,725
Prepaid expenses		80,964	137,989	137,064
Total current assets		9,392,702	9,653,184	12,700,590
Non-current assets				
Investments	8	71,835	70,020	63,525
Property, plant and equipment	9	9,030,989	8,459,607	8,450,689
Deferred tax assets	10	894,000	998,000	999,000
Total non-current assets		9,996,824	9,527,627	9,513,214
Total assets		19,389,526	19,180,811	22,213,804
Regulatory balances	11	4,435,303	14,263,126	10,048,546
Total assets and regulatory balances		$ 23,824,829	$ 33,443,937	$ 32,262,350

See accompanying notes to the non-consolidated financial statements.

E.L.K. ENERGY INC.

Non-Consolidated Statements of Financial Position

	Note	December 31, 2015	December 31, 2014	January 1, 2014
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	12	$ 3,915,861	$ 3,195,122	$ 3,518,359
Due to related parties	21	524,674	532,260	501,799
Customer deposits		1,261,776	1,096,386	1,069,980
Deferred revenue		366,532	369,812	-
Bank debt	13	5,100,000	5,900,000	4,800,000
Shareholder promissory note		-	-	1,900,000
Total current liabilities		11,168,843	11,093,580	11,790,138
Non-current liabilities				
Post-employment benefits	14	581,577	493,841	486,380
Deferred tax liabilities	10	-	-	-
Total non-current liabilities		581,577	493,841	486,380
Total liabilities		11,750,420	11,587,421	12,276,518
Equity				
Share capital	15	2,000,100	2,000,100	2,000,100
Contributed surplus		4,402,375	4,402,375	4,402,375
Retained earnings		1,609,387	909,576	73,785
Accumulated other comprehensive income		89,664	190,611	206,676
Total equity		8,101,526	7,502,662	6,682,936
Total liabilities and equity		19,851,946	19,090,083	18,959,454
Regulatory balances	11	3,972,883	14,353,854	13,302,896
Total liabilities, equity and regulatory balances		$ 23,824,829	$ 33,443,937	$ 32,263,350

See accompanying notes to the non-consolidated financial statements.

On behalf of the Board:

____________________ Director   ____________________ Director

E.L.K. ENERGY INC.

Non-Consolidated Statements of Comprehensive Income
Year ended December 31, 2015, with comparative information for 2014

	Note	2015	2014
Revenue			
Sale of energy		$ 31,227,663	$ 24,533,761
Distribution revenue		3,326,198	3,318,528
Other	16	806,847	514,080
		35,360,708	28,366,369
Operating expenses			
Cost of power purchased		33,821,485	27,259,335
Administration expenses	17	1,436,947	1,458,842
Distribution expenses	18	1,296,206	901,820
Depreciation and amortization		615,127	614,925
		37,169,765	30,234,922
Loss from operating activities		(1,809,057)	(1,868,553)
Net finance income	19	48,538	7,810
Loss before income taxes		(1,760,519)	(1,860,743)
Income tax expense	10	172,500	116,000
Net loss for the year		**(1,933,019)**	**(1,976,743)**
Net movement in regulatory balances, net of tax	11	2,632,830	2,812,534
Net income for the year and net movement in regulatory balances		**699,811**	**835,791**
Other comprehensive income (loss)			
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefits	14	(75,947)	(12,065)
Tax on remeasurements	10	(25,000)	(4,000)
Net movement in regulatory balances, net of tax	11	-	-
Other comprehensive loss for the year		(100,947)	(16,065)
Total comprehensive income for the year		$ 598,864	$ 819,726

See accompanying notes to the non-consolidated financial statements.

E.L.K. ENERGY INC.

Non-Consolidated Statements of Changes in Equity
Year ended December 31, 2015, with comparative information for 2014

	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance at January 1, 2014	$ 2,000,100	$ 4,402,375	$ 73,785	$ 206,676	$ 6,682,936
Net Income and net movement in regulatory balances	-	-	835,791	-	835,791
Other comprehensive income (loss)	-	-	-	(16,065)	(16,065)
Balance at December 31, 2014	2,000,100	4,402,375	909,576	190,611	7,502,662
Balance at January 1, 2015	$ 2,000,100	$ 4,402,375	$ 909,576	$ 190,611	$ 7,502,662
Net income and net movement in regulatory balances	-	-	699,811	-	699,811
Other comprehensive income (loss)	-	-	-	(100,947)	(100,947)
Balance at December 31, 2015	$ 2,000,100	$ 4,402,375	$1,609,387	$ 89,664	$ 8,101,526

See accompanying notes to the non-consolidated financial statements.

E.L.K. ENERGY INC.

Non-Consolidated Statements of Cash Flows
Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Operating activities		
Net income and net movement in regulatory balances	$ 699,811	$ 835,791
Adjustments for:		
Depreciation and amortization	615,127	614,925
Amortization of deferred revenue	(250,313)	-
Post-employment benefits	87,736	7,461
Remeasurement of post-employment benefits	(75,947)	(12,065)
Unrealized gain on investments	(1,815)	(6,495)
Deferred tax assets	104,000	1,000
Income tax expense	68,500	115,000
	1,247,099	1,555,617
Change in non-cash operating working capital:		
Accounts receivable	(464,584)	513,159
Due to/from related parties	115,454	53,301
Unbilled revenue	1,444	(43,565)
Inventory	1,294	(50,073)
Prepaid expenses	57,025	(925)
Accounts payable and accrued liabilities	720,739	(323,237)
Customer deposits	165,390	26,406
	596,762	175,066
Regulatory balances	(553,148)	(3,163,622)
Income tax paid	(112,609)	(197,180)
Income tax received	80,410	1,593
Net cash from operating activities	1,258,514	(1,628,526)
Investing activities		
Purchase of property, plant and equipment	(1,186,509)	(623,843)
Contributions received from customers	247,033	369,812
Net cash used by investing activities	(939,476)	(254,031)
Financing activities		
Proceeds from bank debt	-	1,100,000
Repayment of bank debt	(800,000)	-
Repayment of shareholder promissory note	-	(1,900,000)
Net cash from financing activities	(800,000)	(800,000)
Change in cash and cash equivalents	(480,962)	(2,682,557)
Cash and cash equivalents, beginning of year	3,484,026	6,166,583
Cash and cash equivalents, end of year	$ 3,003,064	$ 3,484,026

See accompanying notes to the non-consolidated financial statements.

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements
Year ended December 31, 2015

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1. **Reporting entity**

E.L.K. Energy Inc. (the "Corporation") is a rate regulated, municipally owned hydro distribution company incorporated under the laws of Ontario, Canada. The Corporation is located in the Town of Essex. The address of the Corporation's registered office is 172 Forest Avenue, Essex, Ontario.

The Corporation delivers electricity and related energy services to residential and commercial customers in Essex, Harrow, Belle River, Comber, Kingsville and Cottam. The Corporation is wholly owned by the Municipality of the Town of Essex ("Town"). The Corporation also performs the billing function for the Town's Water Department.

The financial statements are for the Corporation as at and for the year ended December 31, 2015.

2. **Basis of presentation**

(a) Statement of compliance

The Corporation's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

(b) Adoption of IFRS

These are the Corporation's first financial statements prepared in accordance with IFRS and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Corporation is provided in note 23.

The financial statements were approved by the Board of Directors on April 28, 2016.

(c) Basis of measurement

These financial statements have been prepared on the historical cost basis, unless otherwise stated.

(d) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)
Year ended December 31, 2015

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2. Basis of presentation (continued)

(e) Use of estimates and judgments

(i) Assumptions and estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment is included in the following notes:

(i) Note 3(b) – measurement of unbilled revenue
(ii) Note 9 – estimation of useful lives of its property, plant and equipment
(iii) Note 11 – recognition and measurement of regulatory balances
(iv) Note 14 – measurement of defined benefit obligations: key actuarial assumptions
(v) Note 20 – recognition and measurement of provisions and contingencies

(f) Rate regulation

The Corporation is regulated by the Ontario Energy Board ("OEB"), under the authority granted by the *Ontario Energy Board Act, 1998*. Among other things, the OEB has the power and responsibility to approve or set rates for the transmission and distribution of electricity, providing continued rate protection for electricity consumers in Ontario, and ensuring that transmission and distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to local distribution companies ("LDCs"), such as the Corporation, which may include, and among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes.

The Corporation is required to bill customers for the debt retirement charge set by the province.

(i) Rate Setting

The electricity distribution rates and other regulated charges of the Corporation are determined by the OEB. This regulated rate-setting provides LDCs with the opportunity to recover the revenue requirement associated with owning and operating the LDC. The revenue requirement represents the forecasted prudent costs, including the cost of capital that will be reasonably necessary for the LDC to invest in the electricity grid, and serve customers in its licenced service area.

E.L.K. ENERGY INC.

2. Basis of presentation (continued)

(e) Use of estimates and judgments

(i) Assumptions and estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

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2. Basis of presentation (continued)

(f) Rate regulation (continued)

(ii) Rate Applications

As set out in the OEB's Report of the Board: Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach, dated October 18, 2012, the OEB performs its rate-setting function using a combination of incentive rate-setting and cost of service rate-setting. Both rate-setting techniques are based on applications made by LDC's to the OEB. Provided an LDC meets OEB-specified performance parameters, the LDC can select from one of three rate-setting streams: 4th Generation Incentive Rate-setting, Custom Incentive Rate-setting, or Annual Incentive Rate-setting Index. Each of these streams entails different rate-setting schedules and substantive filing requirements. For all streams, the revenue requirement is established through a cost of service rate-setting application. The selection of stream determines the number of years that cost of service rate-setting application pertains to, and the number of years thereafter that the LDC is expected to file incentive rate-setting applications.

Cost of service rate-setting applications recalculate the revenue requirement through a comprehensive review of an LDC's forecasted prudently incurred costs. Incentive rate-setting applications mechanistically adjust the revenue requirement using an OEB-prescribed formula. That formula was established on November 21, 2013, in the OEB's Report of the Board on Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors.

For the distribution revenue included in sale of energy, the Corporation files a "Cost of Service" ("COS") rate application with the OEB every five years where rates are determined through a review of the forecasted annual amount of operating and capital expenditures, debt and shareholder's equity required to support the Corporation's business. The Corporation estimates electricity usage and the costs to service each customer class to determine the appropriate rates to be charged to each customer class. The COS application is reviewed by the OEB and interveners and rates are approved based upon this review, including any revisions resulting from that review.

In the intervening years an Incentive Rate Mechanism application ("IRM") is filed. An IRM application results in a formulaic adjustment to distribution rates that were set under the last COS application. The previous year's rates are adjusted for the annual change in the Gross Domestic Product Implicit Price Inflator for Final Domestic Demand ("GDP IPI-FDD") net of a productivity factor and a "stretch factor" determined by the relative efficiency of an electricity distributor.

E.L.K. ENERGY INC.

2. Basis of presentation (continued)

(f) Rate regulation (continued)

The Corporation last filed a COS application in 2012 for rates effective May 1, 2013 to April 30, 2014. The GDP IPI-FDD for 2015 is 2.1%, the Corporation's productivity factor is 0.00% and the stretch factor is 0.00%, resulting in a net adjustment of 2.1% to the previous year's rates.

Electricity rates

The OEB sets electricity prices for low-volume consumers twice each year based on an estimate of how much it will cost to supply the province with electricity for the next year. All remaining consumers pay the market price for electricity. The Corporation is billed for the cost of the electricity that its customers use and passes this cost on to the customer at cost without a mark-up.

3. Significant accounting policies

The accounting policies set out below have been applied consistently in all years presented in these financial statements and in preparing the opening IFRS statement of financial position at January 1, 2014 for the purpose of the transition to IFRS.

(a) Financial instruments

All financial assets are classified as loans and receivables except investments, which are classified as fair value through profit or loss and all financial liabilities are classified as other liabilities. These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets as described in note 3(e). The Corporation does not enter into derivative instruments.

Hedge accounting has not been used in the preparation of these financial statements.

Cash equivalents include short-term investments with maturities of three months or less when purchased.

(b) Revenue recognition

Sale and distribution of electricity

Revenue from the sale and distribution of electricity is recognized as the electricity is delivered to customers on the basis of cyclical meter readings since the last meter reading date to the end of the year. Revenue includes the cost of electricity supplied, distribution, and any other regulatory charges. The related cost of power is recorded on the basis of power used.

For customer billings related to electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties, the Corporation has determined that it is acting as a principal for these electricity charges and, therefore, has presented electricity revenue on a gross basis.

Customer billings for debt retirement charges are recorded on a net basis as the Corporation is acting as an agent for this billing stream.

E.L.K. ENERGY INC.

3. Significant accounting policies (continued)

(b) Revenue recognition (continued)

Other revenue

Revenue earned from the provision of services is recognized as the service is rendered or contract milestones are achieved. Amounts received in advance of these milestones are presented as deferred revenue.

Certain customers and developers are required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. Cash contributions are recorded as deferred revenue. When an asset other than cash is received as a capital contribution, the asset is initially recognized at its fair value, with a corresponding amount recognized as deferred revenue. The deferred revenue, which represents the Corporation's obligation to continue to provide the customers access to the supply of electricity, is amortized to income on a straight-line basis over the useful life of the related asset.

Government grants and the related performance incentive payments under CDM programs are recognized as revenue in the year when there is reasonable assurance that the program conditions have been satisfied and the payment will be received.

(c) Materials and supplies

Materials and supplies, the majority of which is consumed by the Corporation in the provision of its services, is valued at the lower of cost and net realizable value, with cost being determined on a first-in, first-out cost basis, and includes expenditures incurred in acquiring the materials and supplies and other costs incurred in bringing them to their existing location and condition.

(d) Property, plant and equipment

Items of property, plant and equipment ("PP&E") used in rate-regulated activities and acquired prior to January 1, 2014 are measured at deemed cost established on the transition date (see note 23(a)), less accumulated depreciation. All other items of PP&E are measured at cost, or, where the item is contributed by customers, its fair value, less accumulated depreciation.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes contracted services, materials and transportation costs, direct labour, overhead costs, borrowing costs and any other costs directly attributable to bringing the asset to a working condition for its intended use.

E.L.K. ENERGY INC.

3. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

Borrowing costs on qualifying assets are capitalized as part of the cost of the asset based upon the weighted average cost of debt incurred on the Corporation's borrowings. Qualifying assets are considered to be those that take in excess of nine months to construct.

When parts of an item of PP&E have different useful lives, they are accounted for as separate items (major components) of PP&E.

When items of PP&E are retired or otherwise disposed of, a gain or loss on disposal is determined by comparing the proceeds from disposal, if any, with the carrying amount of the item and is included in profit or loss.

Major spare parts and standby equipment are recognized as items of PP&E.

The cost of replacing a part of an item of PP&E is recognized in the net book value of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. In this event, the replaced part of PP&E is written off, and the related gain or loss is included in profit or loss. The costs of the day-to-day servicing of PP&E are recognized in profit or loss as incurred.

The need to estimate the decommissioning costs at the end of the useful lives of certain assets is reviewed periodically. The Corporation has concluded it does not have any legal or constructive obligation to remove PP&E.

Depreciation is calculated to write off the cost of items of PP&E using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted prospectively if appropriate. Land is not depreciated. Construction-in-progress assets are not depreciated until the project is complete and the asset is available for use.

The estimated useful lives are as follows:

	Years
Buildings	50
Distribution and metering equipment	10 - 60
Other assets	5 - 15

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)
Year ended December 31, 2015

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3. **Significant accounting policies (continued)**

(e) Impairment

(i) Financial assets measured at amortized cost

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount. Losses are recognized in profit or loss. An impairment loss is reversed through profit or loss if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

(ii) Non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than materials and supplies and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(f) Customer deposits

Customer deposits represent cash deposits from electricity distribution customers and retailers to guarantee the payment of energy bills. Interest is paid on customer deposits.

Deposits are refundable to customers who demonstrate an acceptable level of credit risk as determined by the Corporation in accordance with policies set out by the OEB or upon termination of their electricity distribution service.

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)
Year ended December 31, 2015

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3. Significant accounting policies (continued)

(g) Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(h) Regulatory balances

Regulatory deferral account debit balances represent costs incurred in excess of amounts billed to the customer at OEB approved rates. Regulatory deferral account credit balances represent amounts billed to the customer at OEB approved rates in excess of costs incurred by the Corporation.

Regulatory deferral account debit balances are recognized if it is probable that future billings in an amount at least equal to the deferred cost will result from inclusion of that cost in allowable costs for rate-making purposes. The offsetting amount is recognized in net movement in regulatory balances in profit or loss or OCI. When the customer is billed at rates approved by the OEB for the recovery of the deferred costs, the customer billings are recognized in revenue. The regulatory debit balance is reduced by the amount of these customer billings with the offset to net movement in regulatory balances in profit or loss or OCI.

The probability of recovery of the regulatory deferral account debit balances is assessed annually based upon the likelihood that the OEB will approve the change in rates to recover the balance. The assessment of likelihood of recovery is based upon previous decisions made by the OEB for similar circumstances, policies or guidelines issued by the OEB, etc. Any resulting impairment loss is recognized in profit or loss in the year incurred.

When the Corporation is required to refund amounts to ratepayers in the future, the Corporation recognizes a regulatory deferral account credit balance. The offsetting amount is recognized in net movement in regulatory balances in profit or loss or OCI. The amounts returned to the customers are recognized as a reduction of revenue. The credit balance is reduced by the amount of these customer repayments with the offset to net movement in regulatory balances in profit or loss or OCI.

3. Significant accounting policies (continued)

(i) Post-employment benefits

(i) Pension plan

The Corporation provides a pension plan for all its full-time employees through Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund ("the Fund"), and provides pensions for employees of Ontario municipalities, local boards and public utilities. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. To the extent that the Fund finds itself in an under-funded position, additional contribution rates may be assessed to participating employers and members.

OMERS is a defined benefit plan. However, as OMERS does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the Corporation to directly account for the plan. Consequently, the plan has been accounted for as a defined contribution plan. The Corporation is not responsible for any other contractual obligations other than the contributions. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss when they are due.

(ii) Post-employment benefits, other than pension

The Corporation provides its retired employees with life insurance and medical benefits.

The obligations for these post-employment benefit plans are actuarially determined by applying the projected unit credit method and reflect management's best estimate of certain underlying assumptions. Remeasurements of the net defined benefit obligations, including actuarial gains and losses and the return on plan assets (excluding interest), are recognized immediately in other comprehensive income. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized immediately in profit or loss.

3. Significant accounting policies (continued)

(j) Finance income and finance costs

Finance income is recognized as it accrues in profit or loss, using the effective interest method. Finance income comprises interest earned on cash and cash equivalents and dividend income.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, net interest expense on post-employment benefits and impairment losses on financial assets. Finance costs are recognized in profit or loss unless they are capitalized as part of the cost of qualifying assets.

(k) Income taxes

The income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case, it is recognized in equity.

The Corporation is currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations Tax Act (collectively the "Tax Acts"). Under the *Electricity Act*, 1998, the Corporation makes payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated in accordance with the rules for computing taxable income and taxable capital and other relevant amounts contained in the Tax Acts as modified by the *Electricity Act*, 1998, and related regulations. Prior to October 1, 2001, the Corporation was not subject to income or capital taxes. Payments in lieu of taxes are referred to as income taxes.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted, at the reporting date.

(l) Investments:

The Corporation has designated its investment in the common shares of Sun Life Financial and its investment in the preferred shares of Utilismart Corporation as held for trading investments and these instruments are recorded at market value as determined by quoted market prices. Realized and unrealized gains and losses as a result of disposition of shares and changes in fair value are recorded in the non-consolidated statement of earnings as an unrealized gain or loss on investments.

The investments in ELK Solutions Inc. and Gosfield North Communications are measured at cost.

E.L.K. ENERGY INC.

4. Standards issued but not yet adopted

Future accounting changes

There are new standards, amendments to standards and interpretations which have not been applied in preparing these financial statements.

IFRS 9 – Financial instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Corporation does not intend to early adopt these standards. The Corporation is assessing the potential impact on its financial statements resulting from the application of IFRS 9.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2017, with early adoption permitted. The Corporation does not intend to early adopt these standards. The Corporation is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

IFRS 16 Leases

IFRS 16, issued on January 13, 2016, introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, with early adoption permitted for entities that apply IFRS 15 at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17. The Corporation does not intend to early adopt these standards. The Corporation is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)
Year ended December 31, 2015

5. Cash and cash equivalents

	December 31, 2015	December 31, 2014	January 1, 2014
Bank balances - unrestricted	$ 2,400,946	$ 2,769,144	$ 5,090,384
Bank balance - restricted	602,118	714,882	1,076,199
Cash and cash equivalents in the statements of cash flows	$ 3,003,064	$ 3,484,026	$ 6,166,583

Restricted cash relates to contractor security deposits.

6. Accounts receivable

	December 31, 2015	December 31, 2014	January 1, 2014
Trade receivables	$ 1,998,106	$ 1,505,148	$ 2,007,225
Other trade receivables	271,332	272,346	368,743
Allowance for doubtful accounts	(596,462)	(569,102)	(654,417)
	$ 1,672,976	$ 1,208,392	$ 1,721,551

7. Inventory

Inventory consists of parts and supplies acquired for capital, internal construction, maintenance or recoverable work.

The amount of inventory consumed by the Corporation during 2015 was $122,104 (2014 - $193,799).

Amount written down due to obsolescence in 2015 was $nil (2014 - $nil).

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)
Year ended December 31, 2015

8. Investments:

	December 31, 2015	December 31, 2014	January 1, 2014
Investment in the Class A common Shares of E.L.K. Solutions Inc., at cost	$ 100	$ 100	$ 100
Investment in Gosfield North Communications, at cost	1	1	1
Investment in the preferred shares of Utilismart Corporation, at market	8,045	8,045	8,045
Investment in the common shares of Sun Life Financial, at market	63,689	61,874	55,379
	$ 71,835	$ 70,020	$ 63,525

9. Property, plant and equipment

	Land and buildings	Distribution equipment	Other fixed assets	Total
Cost or deemed cost				
Balance at January 1, 2015	$ 477,901	$ 8,198,002	$ 398,629	$ 9,074,532
Additions	-	1,146,855	39,654	1,186,509
Balance at December 31, 2015	$ 477,901	$ 9,344,857	$ 438,283	$ 10,261,041
Balance at January 1, 2014	$ 477,901	$ 7,691,452	$ 281,336	$ 8,450,689
Additions	-	779,676	118,493	898,169
Transfers	-	(261,786)	-	(261,786)
Disposals/retirements	-	(11,340)	(1,200)	(12,540)
Balance at December 31, 2014	$ 477,901	$ 8,198,002	$ 398,629	$ 9,074,532
Accumulated depreciation				
Balance at January 1, 2015	$ 14,493	$ 504,299	$ 96,133	$ 614,925
Depreciation	14,499	528,730	71,898	615,127
Balance at December 31, 2015	$ 28,992	$ 1,033,029	$ 168,031	$ 1,230,052
Balance at January 1, 2014	$ -	$ -	$ -	$ -
Depreciation	14,493	504,299	96,133	614,925
Disposals/retirements	-	-	-	-
Balance at December 31, 2014	$ 14,493	$ 504,299	$ 96,133	$ 614,925
Carrying amounts				
At December 31, 2015	$ 448,909	$ 8,311,828	$270,252	$ 9,030,989
At December 31, 2014	463,408	7,693,703	302,496	8,459,607
At January 1, 2014	477,901	7,691,452	281,336	8,450,689

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)
Year ended December 31, 2015

10. Income tax expense

Current tax expense

	2015	2014
Current year	$ 172,500	$ 116,000
Adjustment for prior years	-	-
	$ 172,600	$ 116,000

Significant components of the Corporation's deferred tax balances

	December 31, 2015	December 31, 2014	January 1, 2014
Deferred tax assets:			
Property, plant and equipment	$ 492,000	$ 617,000	$ 735,000
Cumulative eligible capital	97,000	105,000	112,000
Post-employment benefits	194,000	164,000	162,000
Deferred revenue	122,000	123,000	-
Other	(11,000)	(11,000)	(10,000)
	$ 894,000	$ 998,000	$ 999,000

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)
Year ended December 31, 2015

11. Regulatory balances

Reconciliation of the carrying amount for each class of regulatory balances

Regulatory deferral account debit balances	January 1, 2015	Additions	Recovery/ reversal	December 31, 2015
Group 1 deferred accounts	$ 12,966,834	$ 12,569,541	$ 21,344,463	$ 4,191,912
Smart meters	808,768	-	808,768	-
Regulatory settlement account	209,002	12,788	-	221,790
Regulatory transition to IFRS	20,475	1,126	-	21,601
Income tax	258,047	-	258,047	-
	$ 14,263,126	$ 12,583,455	$ 22,411,278	$ 4,435,303

Regulatory deferral account debit balances	January 1, 2014	Additions	Recovery/ reversal	December 31, 2014
Group 1 deferred accounts	$ 9,058,643	$ 13,827,698	$ 9,919,507	$ 12,966,834
Smart meters	842,654	117,882	151,768	808,768
Other regulatory accounts	68,135	212,296	7,429	209,002
Regulatory transition to IFRS	20,475	-	-	20,475
Income tax	58,639	199,408	-	258,047
	$ 10,048,546	$ 14,357,284	$ 10,142,704	$ 14,263,126

Regulatory deferral account credit balances	January 1, 2015	Additions	Recovery/ reversal	December 31, 2015
Group 1 deferred accounts	$ 10,323,377	$ 18,253,123	$ 26,103,159	$ 2,473,341
Regulatory transition to IFRS	337,536	-	251,444	86,092
Regulatory settlement account	2,159,069	-	1,646,543	512,526
Other regulatory accounts	104,195	-	47	104,148
Income tax	906,919	-	110,143	796,776
Smart meters	522,758	-	522,758	-
	$ 14,353,854	$ 18,253,123	$ 28,634,094	$ 3,972,883

Regulatory deferral account credit balances	January 1, 2014	Additions	Recovery/ reversal	December 31, 2014
Group 1 deferred accounts	$ 9,291,924	$ 18,582,357	$ 17,550,904	$ 10,323,377
Regulatory transition to IFRS	459,135	-	121,599	337,536
Regulatory settlement account	1,617,377	2,554,698	2,013,006	2,159,069
Other regulatory accounts	131,784	8,214	35,803	104,195
Income tax	1,288,587	7,296	388,964	906,919
Smart meters	514,089	8,669	-	522,758
	$ 13,302,896	$ 21,161,234	$ 20,110,276	$ 14,353,854

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)
Year ended December 31, 2015

11. Regulatory balances (continued)

The regulatory balances are recovered or settled through rates approved by the OEB which are determined using estimates of future consumption of electricity by its customers. Future consumption is impacted by various factors including the economy and weather. The Corporation has received approval from the OEB to establish its regulatory balances.

Settlement of the Group 1 deferral accounts is done on an annual basis through application to the OEB. An application was made to the OEB to dispose $324,154 of the Group 1 deferral accounts and approval was obtained. The approved account balance is moved to the regulatory settlement account. The balance is to be disposed over a 1 year period. The OEB requires the Corporation to estimate its income taxes when it files a COS application to set its rates. As a result, the Corporation has recognized a regulatory deferral account for the amount of deferred taxes that will ultimately be recovered from/paid back to its customers. This balance will fluctuate as the Corporation's deferred tax balance fluctuates.

Regulatory balances attract interest at OEB prescribed rates, which are based on Bankers' Acceptances three-month rate plus a spread of 25 basis points. In 2015 the rate was 1.1%.

12. Accounts payable and accrued liabilities

	December 31, 2015	December 31, 2014	January 1, 2014
Trade payables	$ 3,315,360	$ 2,704,541	$ 2,830,756
Accrued expenses	600,501	490,581	687,603
	$ 3,915,861	$ 3,195,122	$ 3,518,359

13. Bank debt

	December 31, 2015	December 31, 2014	January 1, 2014
One year term loan with interest rate of 1.59% (2014 – 2.04%) repayable in full on or before maturity of June 2016, secured by a general security agreement	$ 5,100,000	$ 5,900,000	$ 4,800,000

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)
Year ended December 31, 2015

14. Post-employment benefits

(a) OMERS pension plan

The Corporation provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined pension plan with equal contributions by the employer and its employees. In 2015, the Corporation made employer contributions of $159,567 to OMERS (2014 - $166,610). The Corporation estimates that a contribution of $154,000 to OMERS will be made during the next fiscal year.

As at December 31, 2015, OMERS had approximately 461,000 members, of whom 20 are current employees of the Corporation. The most recently available OMERS annual report is for the year ended December 31, 2014, which reported that the plan was 91.5% funded, with an unfunded liability of $7 billion. This unfunded liability is likely to result in future payments by participating employers and members.

(b) Post-employment benefits other than pension

The Corporation pays certain medical and life insurance benefits on behalf of some of its retired employees. The Corporation recognizes these post-employment benefits in the year in which employees' services were rendered. The Corporation is recovering its post-employment benefits in rates based on the expense and measurements recognized for post-employment benefit plans.

Reconciliation of the obligation	2015	2014
Defined benefit obligation, beginning of year	$ 493,841	$ 486,380
Included in profit or loss		
Current service cost	12,394	11,946
Interest cost	18,395	20,436
	30,789	32,382
Included in OCI		
Actuarial (gains) losses arising from:		
changes in demographic and financial assumptions	75,947	(1,921)
	75,947	(1,921)
Benefits paid	(19,000)	(23,000)
Defined benefit obligation, end of year	$ 581,577	$ 493,841

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)
Year ended December 31, 2015

14. Post-employment benefits (continued)

(b) Post-employment benefits other than pension (continued)

Actuarial assumptions	2015	2014
General inflation	2.25%	3.0%
Discount (interest) rate	3.5%	3.75%
Medical Costs	8%	8.2%
Dental Costs	4%	4%

A 1% increase in the assumed medical trend rate would result in the defined benefit obligation increasing by $ 48,000. A 1% decrease in the assumed medical trend rate would result in the defined benefits obligation decreasing by $ 43,000.

15. Share capital

	2015	2014
Authorized:		
Unlimited number of common shares		
Issued:		
30,000 common shares	$ 2,000,100	$ 2,000,100

16. Other revenue

	2015	2014
Rendering of services	$ 376,746	$ 297,711
Contributions received from customers	250,313	233,310
Government grants & incentives under CDM programs	109,311	(100,981)
Rental income	45,894	46,336
Other	24,583	37,703
	$ 806,847	$ 514,080

17. Employee salaries and benefits

	2015	2014
Salaries, wages and benefits	$ 1,723,312	$ 1,669,459
CPP and EI remittances	71,205	70,029
Contributions to OMERS	159,566	166,609
Post-employment benefit plans	30,789	32,382
	$ 1,984,872	$ 1,938,479

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)
Year ended December 31, 2015

18. Distribution expenses

	2015	2014
Labour	$ 238,593	$ 232,503
Materials, supplies, maintenance	963,703	574,169
Other	93,910	95,148
	$ 1,296,206	$ 901,820

19. Finance income and costs

	2015	2014
Finance income		
Late payment charges	$ 120,092	$ 107,335
Unrealized gain on investments	1,815	6,495
Interest income on bank deposits	29,496	77,749
	151,403	191,579
Finance costs		
Interest expense on bank debt	101,088	101,818
Interest expense on shareholder note	-	81,951
Other	1,777	-
	102,865	183,769
Net finance income recognized in profit or loss	$ 48,538	$ 7,810

20. Commitments and contingencies

General

From time to time, the Corporation is involved in various litigation matters arising in the ordinary course of its business. The Corporation has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Corporation's financial position, results of operations or its ability to carry on any of its business activities.

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)
Year ended December 31, 2015

20. Commitments and contingencies (continued)

General Liability Insurance

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). MEARIE is a pooling of public liability insurance risks of many of the LDCs in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool for the years in which they were members, on a pro-rata basis based on the total of their respective service revenues. As at December 31, 2015, no assessments have been made.

21. Related party transactions

(a) Parent and ultimate controlling party

The sole shareholder of the Corporation is the Municipality of the Town of Essex. The Town produces consolidated financial statements that are available for public use.

(b) Outstanding balances due from (due to) with related parties

	December 31, 2015	December 31, 2014	January 1, 2014
Parent company, included in accounts receivable	$ 29,515	$ 28,332	$ 21,382
Subsidiary, included in accounts receivable	109,954	234,177	263,967
	$ 139,469	$ 262,509	$ 285,349
Parent company, included in accounts payable	$ (524,674)	$ (532,260)	$ (501,799)

(c) Transactions with parent

During the year the Corporation paid provision of services fees to its parent in the amount of $524,909 (2014 - $531,482) and interest on the shareholder promissory note of $nil (2014 - $81,951).

The Corporation delivers electricity to the Town throughout the year for the electricity needs of the Town and its related organizations. Electricity delivery charges are at prices and under terms approved by the OEB. The Corporation also provides additional services to the Town, including streetlight maintenance services, sentinel lights and water and waste water billing and customer care services.

(d) Transactions with entity with significant influence

In the ordinary course of business, the Corporation delivers electricity to the Town of Essex. Electricity is billed to the Town at prices and under terms approved by the OEB, if applicable.

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)
Year ended December 31, 2015

21. Related party transactions (continued)

(e) Key management personnel

The key management personnel of the Corporation have been defined as members of its board of directors and executive management team members. The compensation paid or payable is as follows:

	2015	2014
Directors' fees	$ 24,813	$ 20,945
Salaries and other short-term benefits	335,991	296,172
Post-employment benefits	3,241	3,409
	$ 364,045	$ 320,526

22. Financial instruments and risk management

Fair value disclosure

The carrying values of cash and cash equivalents, accounts receivable, unbilled revenue, due from/to related parties and accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments. The carrying value of the customer deposits, bank and shareholder promissory note approximates fair value because the amounts are payable on demand.

Financial risks

The Corporation understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Corporation's exposure to a variety of risks such as credit risk, interest rate risk, and liquidity risk, as well as related mitigation strategies are discussed below.

22. Financial instruments and risk management (continued)

(a) Credit risk

Financial assets carry credit risk that a counterparty will fail to discharge an obligation which could result in a financial loss. Financial assets held by the Corporation, such as accounts receivable, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the Town of Essex, Lakeshore and Kingsville. No single customer accounts for a balance in excess of 1% of total accounts receivable.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in profit or loss. Subsequent recoveries of receivables previously provisioned are credited to profit or loss. The balance of the allowance for impairment at December 31, 2015 is $596,462 (2014 - $569,102). An impairment loss of $36,727 (2014 - $51,007) was recognized during the year.

The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2015, approximately $1,011,825 (2014 - $987,346) is considered 60 days past due. The Corporation has over 11,500 customers, the majority of whom are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2015, the Corporation holds security deposits in the amount of $1,261,776 (2014 - $1,096,386).

(b) Market risk

Market risks primarily refer to the risk of loss resulting from changes in commodity prices, foreign exchange rates, and interest rates. The Corporation currently does not have any material commodity or foreign exchange risk. The Corporation is exposed to fluctuations in interest rates as the regulated rate of return for the Corporation's distribution business is derived using a complex formulaic approach which is in part based on the forecast for long-term Government of Canada bond yields. This rate of return is approved by the OEB as part of the approval of distribution rates.

A 1% increase in the interest rate at December 31, 2015 would have increased interest expense on the long-term debt by $55,000 (2014 - $63,000), assuming all other variables remain constant. A 1% decrease in the interest rate would have an equal but opposite effect.

22. Financial instruments and risk management (continued)

(c) Liquidity risk

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Corporation has access to a $5.1 million credit facility and monitors cash balances daily to ensure that a sufficient level of liquidity is on hand to meet financial commitments as they become due. As at December 31, 2015, no amounts had been drawn under the Corporation's $5.1 million credit facility.

The majority of accounts payable, as reported on the statement of financial position, are due within 30 – 60 days.

(d) Capital disclosures

The main objectives of the Corporation, when managing capital, are to ensure ongoing access to funding to maintain and improve the electricity distribution system, compliance with covenants related to its credit facilities, prudent management of its capital structure with regard for recoveries of financing charges permitted by the OEB on its regulated electricity distribution business, and to deliver the appropriate financial returns.

The Corporation's definition of capital includes shareholder's equity. As at December 31, 2015, shareholder's equity amounts to $8,101,526 (2014 - $7,502,662).

23. Explanation of transition to IFRS

As stated in note 2(b), these are the Corporation's first financial statements prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended December 31, 2015, the comparative information presented in these financial statements for the year ended December 31, 2014, and in the preparation of the opening IFRS Statement of Financial Position as at January 1, 2014 (the Corporation's date of transition).

In preparing its opening IFRS Statement of Financial Position, the Corporation has adjusted the amounts reported previously in the financial statements prepared in accordance with Canadian general accepted accounting principles (CGAAP). An explanation of how the transition from CGAAP to IFRS has affected the Corporation's financial position, financial performance and cash flows is set out in the following tables and the notes accompanying the tables.

Regulatory accounts

IFRS14: *Regulatory Deferral Accounts*, permits an entity to continue to account for regulatory deferral account balances in its financial statements in accordance with its previous GAAP when it adopts IFRS. An entity is permitted to apply the requirements of this standard in its first IFRS financial statements if and only if it conducts rate-regulated activities and recognized amounts that qualify as regulatory deferral account balances in its financial statements in accordance with its previous GAAP. This standard exempts an entity from applying paragraph 11 of IAS8: *Accounting policies, changes in accounting estimates and errors*, to its accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances.

IFRS 14 is effective from periods beginning on or after January 1, 2016, however, early application is permitted. The Corporation has elected to apply this Standard in its first IFRS financial statements.

IFRS 1 Exemptions

IFRS 1 *First-time adoption of International Financial Reporting Standards* sets out the procedures that the Corporation must follow when it adopts IFRS for the first time as the basis for preparing its financial statements. The Corporation is required to establish its IFRS accounting policies as at December 31, 2015 and, in general, apply these retrospectively to determine the IFRS opening statement of financial position as its date of transition, January 1, 2014. This standard provides a number of mandatory and optional exemptions to this general principle. These are set out below, together with a description in each case of the exemption adopted by the Corporation.

E.L.K. ENERGY INC.

23. Explanation of transition to IFRS (continued)

Deemed cost

IFRS 1 provides an optional exemption for a first-time adopter with rate-regulated activities to use the carrying amount of PP&E as deemed cost on transition date when the carrying amount includes costs that do not quality for capitalization in accordance with IFRS. The Corporation elected this exemption and used the carrying amount of the PP&E under CGAPP as deemed cost on transition date. The carrying amount used as deemed cost is $8,450,689 for PP&E.

If an entity applies this exemption, at the date of transition to IFRS, it shall test for impairment each item for which this exemption is used. The assets were tested for impairment at the date of transition and it was determined that the assets were not impaired.

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)
Year ended December 31, 2015

23. Explanation of transition to IFRS (continued)

Reconciliation of statement of financial position and statement of changes in equity

January 1, 2014	Note	CGAAP	Presentation differences	Measurement and recognition differences	IFRS
Cash and cash equivalents	-	$ 6,166,583	$ -	$ -	$ 6,166,583
Accounts receivable	-	2,006,900	-	-	2,006,900
Unbilled revenue	-	4,134,838	-	-	4,134,838
Income taxes receivable	-	7,480	-	-	7,480
Inventory	-	247,725	-	-	247,725
Prepaid expenses	-	137,064	-	-	137,064
Investments	-	63,525	-	-	63,525
Property, plant and equipment	-	8,066,698	383,991	-	8,450,689
Deferred tax assets	-	1,354,000	(355,000)	-	999,000
Total assets	-	22,184,813	28,991	-	22,213,804
Regulatory balances	-	-	10,048,546	-	10,048,546
Total assets and regulatory balances	-	$ 22,184,813	$ 10,077,537	$ -	$ 32,262,350
Accounts payable and accrued liabilities	-	$ 4,020,158	$ -	$ -	$ 4,020,158
Shareholder promissory note	-	1,900,000	-	-	1,900,000
Customer deposits	-	1,069,980	-	-	1,069,980
Bank debt	-	4,800,000	-	-	4,800,000
Post-employment benefits	(e)	693,056	-	(206,676)	486,380
Total liabilities	-	12,483,194	-	(206,676)	12,276,518
Share capital	-	2,000,100	-	-	2,000,100
Contributed surplus	-	4,402,375	-	-	4,402,375
Retained earnings	-	73,785	-	-	73,785
Accumulated OCI	(e)	-	-	206,676	206,676
Total liabilities and equity	-	18,959,454	-	-	18,959,454
Regulatory balances	-	3,225,359	10,077,537	-	13,302,896
Total liabilities, equity and regulatory balances	-	$ 22,184,813	$ 10,077,537	$ -	$ 32,262,350

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)
Year ended December 31, 2015

23. Explanation of transition to IFRS (continued):

Reconciliation of statement of financial position and statement of changes in equity

December 31, 2014	Note	CGAAP	Presentation differences	Measurement and recognition differences	IFRS
Cash and cash equivalents	-	$ 3,484,026	$ -	$ -	$ 3,484,026
Accounts receivable	-	1,208,392	-	-	1,208,392
Due from related parties	-	262,509	-	-	262,509
Unbilled revenue	-	4,178,403	-	-	4,178,403
Income taxes receivable	-	84,067	-	-	84,067
Inventory	-	297,798	-	-	297,798
Prepaid expenses	-	137,989	-	-	137,989
Property, plant and equipment	-	7,919,365	546,366	(6,124)	8,459,607
Investments	-	70,020	-	-	70,020
Deferred tax assets	-	1,210,000	(212,000)	-	998,000
Total assets	-	18,852,569	334,366	(6,124)	19,180,811
Regulatory balances	-	-	14,257,002	6,124	14,263,126
Total assets and regulatory balances	-	$18,852,569	$14,591,368	$ -	$ 33,443,937
Accounts payable and accrued liabilities	-	$ 3,727,382	$ -	-	3,727,382
Customer deposits	-	1,096,386	-	-	1,096,386
Bank debt	-	5,900,000	-	-	5,900,000
Post-employment benefits	(e)	688,452	(194,611)	-	493,841
Deferred revenue	(c)	-	369,812	-	369,812
Total liabilities	-	11,412,220	175,201	-	11,587,421
Share capital	-	2,000,100	-	-	2,000,100
Contributed surplus	-	4,402,375	-	-	4,402,375
Retained earnings	(e)	905,576	4,000	-	909,576
Accumulated OCI	(e)	-	190,611	-	194,611
Total liabilities and equity	-	18,720,271	369,812	-	19,090,083
Regulatory balances	-	132,298	14,221,556	-	14,353,854
Total liabilities, equity and regulatory balances	-	$18,852,569	$14,591,368	$ -	$ 33,443,937

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)
Year ended December 31, 2015

	CGAAP	Presentation differences	Measurement and recognition differences	IFRS
Revenue				
Sale of energy	$ 26,261,205	$ (1,727,444)	$ -	$ 24,533,761
Distribution revenue	-	3,318,528	-	3,318,528
Other	-	514,080	-	514,080
	26,261,205	2,105,164		28,366,369
Operating expenses				
Cost of power purchased	22,963,742	4,295,593	-	27,259,335
Administration expenses	1,458,842	8,000	-	1,466,842
Distribution expenses	806,466	95,354	-	901,820
Depreciation and amortization	352,695	262,230	-	614,925
	25,581,745	4,661,177	-	30,234,922
Income (loss) from operating activities	679,460	(2,556,013)	-	(1,868,553)
Net finance income	267,331	(259,521)	-	7,810
Income (loss) before income taxes	946,791	(2,815,534)	-	(1,860,743)
Income tax expense	115,000	1,000	-	116,000
Net income (loss) for the year	831,791	(2,816,534)	-	(1,976,743)
Net movement in regulatory balances, net of tax	-	2,812,534	-	2,812,534
Net income and net movement in regulatory balances	**$ 831,791**	**$ 4,000**	**$ -**	**$ 835,791**
Other comprehensive income (loss)				
Items that will not be reclassified to profit or loss				
Remeasurement of post-employment benefits	-	-	(12,065)	(12,065)
Tax on remeasurements	-	(4,000)	-	(4,000)
Other comprehensive income (loss) for the year	-	(4,000)	(12,065)	(16,065)
Total comprehensive income for the year	$ 831,791	$ -	$ (12,065)	$ 819,726

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)
Year ended December 31, 2015

23. Explanation of transition to IFRS (continued)

Notes to the reconciliations

The impact on deferred tax of the adjustments described below is set out in note (e).

(a) The Corporation has elected under IFRS 1 to use the carrying value of items of PP&E as the deemed cost at the date of transition. Therefore, there has been no change to the net PP&E at January 1, 2014. The effect of this transitional adjustment is a decrease to the original cost and accumulated depreciation of the affected PP&E by $14,374,627, the CGAAP accumulated depreciation amount, on January 1, 2014.

(b) IFRS requires that borrowing costs related to the construction of the qualifying assets be capitalized. The Corporation has applied IAS 23 to all qualifying assets that were in progress or commenced since January 1, 2014. No qualifying assets were identified and therefore no borrowing costs were capitalized for the year ended December 31, 2014.

(c) Under CGAAP, customer contributions were netted against the cost of PP&E and amortized to profit or loss as an offset to depreciation expense, on the same basis as the related assets. Under IFRS, customer contributions are recognized as deferred revenue, not netted against PP&E, and amortized into profit or loss over the life of the related asset.

The effect of the above is to increase deferred revenue by $nil at January 1, 2014 and by $369,812 at December 31, 2014; to decrease construction deposits by $nil at January 1, 2014 and by $369,812 at December 31, 2014; to increase PP&E by $369,812 at December 31, 2014 and to increase other revenue and depreciation expense by $nil for the year ended December 31, 2014.

(d) Under CGAAP for rate regulated entities, the Corporation removed assets from the accounts at the end of their estimated useful lives. IFRS requires assets to be removed from the accounts when they have been removed from service.

(e) The Corporation adopted the revised Employee Benefits standard effective January 1, 2014. This revised standard requires recognition of actuarial gains and losses through other comprehensive income. This decreased post-employment benefits and increased accumulated other comprehensive income by $206,676 at January 1, 2014. During 2014, the revised standard decreased the post-employment benefit liability and accumulated other comprehensive income by $12,065 at December 31, 2014.

There are no material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under CGAAP.

Appendix 1F- 2014 Audited Financial Statements

Non-Consolidated Financial Statements of

E.L.K. ENERGY INC.

Year ended December 31, 2014

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INDEPENDENT AUDITORS' REPORT

To the Directors of E.L.K. Energy Inc.

We have audited the accompanying non-consolidated financial statements of E.L.K. Energy Inc., which comprise the non-consolidated balance sheet as at December 31, 2014, the non-consolidated statements of earnings, retained earnings and the cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The non-consolidated financial statements have been prepared by management in accordance with the basis of accounting in Note 1 to the non-consolidated financial statements.

Management's Responsibility for the Non-consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements in accordance with the basis of accounting in Note 1 to the non-consolidated financial statements; this includes determining that the basis of accounting is an acceptable basis for the preparation of the non-consolidated financial statements in the circumstances, and for such internal control as management determines is necessary to enable the preparation of the non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these non-consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the non-consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the non-consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the non-consolidated financial statements present fairly, in all material respects, the non-consolidated financial position of E.L.K. Energy Inc. as at December 31, 2014, and its non-consolidated results of operations and its non-consolidated cash flows for the year then ended in accordance with the basis of accounting in Note 1 to the non-consolidated financial statements.

Basis of Accounting and Restriction of Use

Without modifying our opinion, we draw attention to Note 1 to the non-consolidated financial statements, which describes the basis of accounting. The non-consolidated financial statements are prepared to assist E.L.K. Energy Inc. to prepare its corporate income tax returns. As a result, the non-consolidated financial statements may not be suitable for another purpose. Our report is intended solely for E.L.K. Energy Inc. and for the federal and provincial income tax authorities and should not be used by parties other than E.L.K Energy Inc. or the federal and provincial tax authorities.

Other Matters

E.L.K. Energy Inc. has prepared a separate set of consolidated financial statements for the year ended December 31, 2014 in accordance with Canadian generally accepted accounting principles on which we issued a separate auditors' report.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

April 23, 2015

Windsor, Canada

E.L.K. ENERGY INC.

Non-consolidated Balance Sheet

December 31, 2014, with comparative information for 2013

	2014	2013
Assets		
Current assets:		
Cash:		
Unrestricted	$ 2,769,144	$ 5,090,384
Restricted (note 2(a))	714,882	1,076,199
Accounts receivable (note 12)	1,470,901	2,006,900
Prepaid expenses	137,989	137,064
Unbilled revenue	4,178,403	4,134,838
Inventories	297,798	247,725
Payment in lieu of income taxes receivable	84,067	7,480
	9,653,184	12,700,590
Property, plant and equipment, at cost (note 3)	22,646,687	22,441,325
Less accumulated depreciation	14,727,322	14,374,627
	7,919,365	8,066,698
Future payments in lieu of income taxes (note 13)	1,210,000	1,354,000
Investments (note 5)	70,020	63,525
	$ 18,852,569	$ 22,184,813

E.L.K. ENERGY INC.

Non-consolidated Statement of Earnings

Year ended December 31, 2014, with comparative information for 2013

	2014	2013
Service revenue	$ 26,298,875	$ 24,123,558
Service revenue adjustment	(37,670)	684,968
	26,261,205	24,808,526
Cost of electricity	22,963,742	21,152,044
Gross margin on service revenue	3,297,463	3,656,482
Other operating revenue:		
Interest and other	464,113	585,450
Late payment charges	107,336	111,041
Unrealized gain on investments	6,494	16,457
	577,943	712,948
	3,875,406	4,369,430
Expenses:		
Administration	866,088	1,012,393
Billing and collecting	592,754	593,037
Amortization	352,695	376,750
MIFRS regulatory adjustment (note 4(g))	-	625,581
Interest	310,612	369,198
Operations and maintenance	806,466	725,313
	2,928,615	3,702,272
Earnings before payments in lieu of income taxes	946,791	667,158
Payments in lieu of income taxes	115,000	229,247
Net earnings	$ 831,791	$ 437,911

See accompanying notes to non-consolidated financial statements.

E.L.K. ENERGY INC.
Non-consolidated Statement of Retained Earnings

Year ended December 31, 2014, with comparative information for 2013

		2014		2013
Balance, beginning of year	$	73,785	$	(364,126)
Net earnings		831,791		437,911
Balance, end of year	$	905,576	$	73,785

See accompanying notes to non-consolidated financial statements.

E.L.K. ENERGY INC.
Non-consolidated Statement of Cash Flows

Year ended December 31, 2014, with comparative information for 2013

		2014		2013
Cash provided by (used in):				
Operations:				
Net earnings	$	831,791	$	437,911
Items not involving cash:				
Amortization of property, plant and equipment		352,695		376,750
Future payments in lieu of income taxes		144,000		186,000
Increase (decrease) in employee future benefits		(4,604)		3,753
Unrealized gain on investments		(6,495)		(16,457)
Changes in non-cash operating working capital		72,073		(232,301)
		1,389,460		755,656
Financing:				
Increase in long-term customer deposits		26,406		105,013
Decrease in capital lease obligation		-		(3,271)
Repayment of shareholder promissory note		(1,900,000)		-
Increase (decrease) in bank debt		1,100,000		(800,000)
		(773,594)		(698,258)
Investing:				
Property, plant and equipment additions, net		(205,362)		(294,701)
Proceeds on sale of property, plant and equipment		-		4,500
Increase (decrease) in regulatory liabilities		(3,093,061)		70,134
		(3,298,423)		(220,067)
Decrease in cash		(2,682,557)		(162,669)
Cash, beginning of year		6,166,583		6,329,252
Cash, end of year	$	3,484,026	$	6,166,583
Cash consists of:				
Unrestricted	$	2,769,144	$	5,090,384
Restricted		714,882		1,076,199
	$	3,484,026	$	6,166,583

See accompanying notes to non-consolidated financial statements.

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2014

E.L.K. Energy Inc. (the "Corporation") supplies and distributes electric power and maintains electrical distribution systems in the following communities: Essex, Harrow, Belle River, Comber, Kingsville, and Cottam. The Corporation also performs the billing function for the Municipality of the Town of Essex Water Department.

1. Basis of accounting:

These non-consolidated financial statements have been prepared in accordance with Part V of the Chartered Professional Accountants Handbook ("CPA Handbook") – Accounting except for the Corporation's investment in its wholly-owned subsidiary, E.L.K. Solutions Inc., which is accounted for using the cost method, as well as the accounting treatment for depreciation and capitalization as discussed in note 2(c) to the non-consolidated financial statements. These non-consolidated financial statements have been prepared in accordance with the significant accounting policies set out below.

2. Significant accounting policies:

(a) Restricted cash:

Restricted cash of $714,882 (2013 - $1,076,199) relates to contractor security deposits.

(b) Inventories:

Inventories are valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

(c) Property, plant and equipment:

Property, plant and equipment are recorded at cost. Depreciation is calculated on a straight-line basis over the useful life of the asset as follows:

Buildings	50 years
Distribution and metering equipment	10-60 years
Other assets	5-15 years

The Corporation recognizes work-in-process for larger capital investment projects that are not in service at the end of the year. When the capital investment projects are completed, they are transferred to the appropriate property, plant and equipment or computer software account. Depreciation of these assets will begin when they are placed in service.

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2014

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2. Significant accounting policies (continued):

(d) Revenue recognition:

Electricity distribution service charges comprises customer billings for electricity and distribution service charges less the cost of electricity purchases by the Corporation. Customer billings for electricity and distribution service charges are recorded on the basis of time of use customer usage from the last billing until the end of the fiscal year. The latter component is recorded as unbilled revenue.

(e) Investments:

The Corporation has designated its investment in the common shares of Sun Life Financial and its investment in the preferred shares of Utilismart Corporation as held for trading investments and these instruments are recorded at market value as determined by quoted market prices. Realized and unrealized gains and losses as a result of disposition of shares and changes in fair value are recorded in the non-consolidated statement of earnings as an unrealized gain or loss on investments.

The investments in ELK Solutions Inc. and Gosfield North Communications are measured at cost.

(f) Employee future benefits:

The Corporation provides post-retirement benefits for employees who retire from active employment. The Corporation measures the costs of its obligation based on its best estimate.

The Corporation accrues its obligations under employee benefit plans as the employees render the services necessary to earn employee future benefits.

The cost of retirement benefits earned by employees is actuarially determined using the projected cost method pro rated on service and the actuary's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. The excess of the net actuarial gain or loss over 10% of the benefit obligation is amortized over the average remaining service period of active employees of the plan, which is 11.3 years at December 31, 2014.

Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

2. Significant accounting policies (continued):

(g) Payments in lieu of taxes ("PILs"):

The Corporation is currently exempt from taxes under the Income Tax Act (Canada) ("ITA") and the Ontario Corporations Tax Act ("OCTA").

Pursuant to the Electricity Act, the Corporation is required to compute taxes under the ITA and OCTA and remit such amounts thereunder computed to the Ministry of Finance (Ontario). These amounts, referred to as PILs under the Electricity Act, are applied to reduce certain debt obligations of the former Ontario Hydro continuing as Ontario Electricity Financial Corporation.

The Corporation provides for payments in lieu of corporate income taxes using the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. When unrecorded future income taxes become payable, it is expected that they will be included in the rates approved by the Ontario Energy Board ("OEB") and recovered from the customers of the Corporation at the time.

(h) Pension plan:

The Corporation provides a pension plan for all its full-time employees through Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer, contributory, defined benefit pension plan established in 1962 by the Province of Ontario for employees of municipalities, local boards and school boards in Ontario. Both participating employers and employees are required to make plan contributions based on participating employees' contributory earnings.

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2. Significant accounting policies (continued):

(h) Pension plan (continued):

OMERS is a defined benefit plan. However, as OMERS does not segregate its pension assets and liabilities information by individual employer, there is not sufficient information to enable the Corporation to account for the plan as a defined benefit plan. The plan has been accounted for as a defined contribution plan. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the non-consolidated statement of earnings when they are due. At December 31, 2014, the OMERS plan is in a deficit position.

(i) Customer deposits:

Customer deposits comprise cash collections from electricity customers which are applied against any unpaid portion of individual customer accounts. Customer deposits in excess of unpaid account balances are refundable to individuals upon termination of their electricity service.

(j) Use of estimates:

The preparation of the non-consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities at the date of the non-consolidated financial statements. Significant items subject to such estimates and assumptions include the carrying value of property, plant and equipment, valuation allowances for accounts receivable, regulatory assets and liabilities, future payments in lieu of income taxes and employee future benefits. Actual results could differ from those estimates.

(k) Rate regulation:

(i) Electricity industry in Ontario:

The Ontario Energy Board Act, 1998 (Ontario) ("OEBA"), conferred on the OEB increased powers and responsibilities to regulate the electricity industry. These powers and responsibilities include the power to approve or fix rates for the transmission and distribution of electricity, the power to provide continued rate protection for rural and remote electricity consumers, and the responsibility for ensuring the distribution companies fulfill obligations to connect and service customers.

2. Significant accounting policies (continued):

(k) Rate regulation (continued):

(i) Electricity industry in Ontario (continued):

The OEB may also prescribe license requirements and records, regulatory accounting principles, separation of accounts for distinct business and filing and processing requirements for rate setting purposes. In its capacity to approve or set rates, the OEB has the authority to specify regulatory treatments that may result in accounting treatments that differ from Canadian generally accepted accounting principles for enterprises operating in a non-rate regulated environment.

(ii) Regulatory decisions to adjust distribution rates:

In the event that a regulatory decision is rendered, providing regulatory approval and certainty to the recognition of an asset, or creation of a liability, and culminating in an adjustment to the Corporation's distribution rates, such occurrences are immediately reflected in the Corporation's accounts.

(iii) Regulatory direction and practice:

In the absence of a regulatory decision impacting rates, and where the Corporation is required by regulatory accounting practices or direction to accumulate balances for future rate recovery or create liabilities for future discharge, those amounts are recorded in accordance with that regulatory direction. Management assesses the future uncertainty with respect to the final regulatory disposition of those amounts, and to the extent required, makes accounting provision to reduce the deferred balances accumulated or to increase the recorded liabilities. Upon rendering of the final regulatory decision adjusting distribution rates, the provisions are adjusted to reflect the final impact of the decision, and such adjustment is reflected in net earnings for the period.

Amounts currently confirmed by final regulatory decision, and amounts currently accounted for in the absence of final regulatory decision together with related provisions for future uncertainty, are more fully described in note 4 to the non-consolidated financial statements.

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2014

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2. Significant accounting policies (continued):

(k) Rate regulation (continued):

(iv) Rate setting (continued):

The distribution rates of the Corporation are based on rates approved by the OEB on an annual basis. Rates are typically effective May 1 to April 30 of the following year. Accordingly, for the first four months of 2014, distribution revenue is based on rates approved for 2013. Once every four years, the Corporation files an Electricity Distribution Rate ("EDR") application where rates are rebased through a cost of service review. In the intervening years an Incentive Rate Mechanism ("IRM") application is filed. A cost of service EDR application is based upon a forecast of the amount of operating and capital expenses. An IRM application results in a formulaic adjustment to distribution rates to adjust distribution rates for the annual change in the GSP IPI-FDD net of productivity factor and a "Stretch Factor" determined by the relative efficiency of an electricity distributor.

On October 25, 2013, the Corporation filed an IRM application with the OEB seeking approval of changes to the rates that the Corporation charges for electricity distribution effective May 1, 2014. The application was approved on March 13, 2014.

(l) Long-lived assets:

The Corporation periodically reviews the useful lives and the carrying values of its long-lived assets for continued appropriateness. The Corporation reviews for impairment of long-lived assets (or asset groups) to be held and used whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the undiscounted expected future cash flows expected to result from the use and eventual disposition of an asset is less than its carrying amount, it is considered to be impaired. An impairment loss is measured at the amount by which the carrying amount of the asset exceeds its fair value. When quoted market prices are not available, the Corporation uses the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset as an estimate of fair value.

2. Significant accounting policies (continued):

(m) Financial Instruments:

All financial instruments are carried on the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other liabilities, which are measured at amortized cost.

The Corporation has classified its financial instruments as follows:

Cash and cash equivalents	Held-for-trading
Accounts receivable	Loans and receivables
Unbilled revenue	Loans and receivables
Payments in lieu of income taxes	Loans and receivables/other liabilities
Accounts payable and accruals	Other liabilities
Customer deposits	Other liabilities
Shareholder promissory notes	Other liabilities
Long-term debt	Other liabilities

(n) Related party transactions:

Transactions with related parties represent the culmination of the earnings process and are measured at the exchange amount.

3. Property, plant and equipment:

(a) Cost:

	Land and buildings	Distribution and metering equipment	Other assets	Total
Balance at January 1, 2013	$ 841,693	$ 18,988,392	$ 3,137,510	$ 22,967,595
Additions	-	250,665	52,779	303,444
Regulatory asset transfer	-	912,143	-	912,143
Disposals/retirements	-	(91,976)	(1,649,881)	(1,741,857)
Balance at December 31, 2013	$ 841,693	$ 20,059,224	$ 1,540,408	$ 22,441,325
Balance at December 31, 2013	$ 841,693	$ 20,059,224	$ 1,540,408	$ 22,441,325
Additions	-	264,562	118,493	383,055
Disposals/retirements	-	-	(1,200)	(1,200)
Regulatory asset transfer	-	(176,493)	-	(176,493)
Balance at December 31, 2014	$ 841,693	$ 20,147,293	$ 1,657,701	$ 22,646,687

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2014

3. Property, plant and equipment (continued):

(b) Accumulated depreciation:

	Land and buildings	Distribution and metering equipment	Other assets	Total
Balance at January 1, 2013	$ 349,302	$ 12,589,512	$ 2,787,677	$ 15,726,491
Amortization	14,490	248,484	113,776	376,750
Disposals/retirements	-	(86,233)	(1,642,381)	(1,728,614)
Balance at December 31, 2013	$ 363,792	$ 12,751,763	$ 1,259,072	$ 14,374,627
Balance at December 31, 2013	$ 363,792	$ 12,751,763	$ 1,259,072	$ 14,374,627
Amortization	14,493	242,069	96,133	352,695
Balance at December 31, 2014	$ 378,285	$ 12,993,832	$ 1,355,205	$14,727,322

(c) Carrying amounts:

	Land and buildings	Distribution and metering equipment	Other assets	Total
December 31, 2013	$ 477,901	$ 7,307,461	$ 281,336	$ 8,066,698
December 31, 2014	$ 463,408	$ 7,153,461	$ 302,496	$ 7,919,365

4. Regulatory liabilities:

Regulatory assets and liabilities arise as a result of the rate regulating process. The Corporation has recorded the following regulatory assets and liabilities:

	2014	2013
Regulatory assets (liabilities):		
Future payments in lieu of income taxes	$ (848,247)	$ (1,579,300)
Other regulatory assets (liabilities)	58,601	(95,726)
Miscellaneous deferred debits	(74)	1,602
Amount approved for settlement of regulatory assets	804,779	(65,615)
MIFRS regulatory adjustment	(317,062)	(438,661)
Retail cost variances	287	(35,133)
Retail settlement variances	(145,062)	(1,367,223)
Smart meter capital and recovery	314,480	354,727
	$ (132,298)	$ (3,225,359)

4. Regulatory liabilities (continued):

(a) Future payments in lieu of income taxes:

Future payments in lieu of income taxes represent the OEB approved PILs methodology for determining the deferral account allowance. On May 1, 2013, the OEB issued its decision with respect to partial disposition of the balances and payment of $375,969 to customers over a three year period commencing May 1, 2013.

On May 1, 2014, the OEB issued its decision on the IRM application, requiring disposition of an additional $387,674 to customers over a two year period commencing May 1, 2014.

(b) Retail settlement variances:

E.L.K. has deferred certain retail settlement variances amounts under the provisions of Article 490 of the OEB's Accounting Procedures Handbook.

These variances represent amounts that have accumulated since Market Opening and comprise:

(i) variances between amounts charged by the Independent Electricity System Operator ("IESO") for the operation of the wholesale electricity market and grid, various wholesale market settlement charges, amounts charged to allow for the purchase of imported electricity and transmission charges, and the amounts billed to customers by the Corporation based on the OEB approved market service rate; and

(ii) amounts allocated to the Corporation and approved by the OEB for the recovery of regulatory assets incurred by Hydro One including low voltage tariffs. The Hydro One recovery of these charges commenced on April 1, 2005, and these costs will be passed through to customers during the rate making process.

On May 1, 2013, The OEB issued its decision with respect to partial disposition of the balances and payment of $255,959 to customers over a one year period commencing May 1, 2013.

On May 1, 2014, the OEB issued its decision on the IRM application, requiring disposition of an additional $391,274 to customers over a one year period commencing May 1, 2014.

4. Regulatory assets and liabilities (continued):

(c) Other regulatory assets (liabilities):

On December 20, 2004, the OEB issued a letter on the accounting treatment of OEB assessments. The OEB clearly identifies that it is their intent to allow electricity LDC's to record their OEB cost assessments for the Board's fiscal year 2005 and subsequent years in order that these costs may be given consideration for rate recovery in the future.

On May 1, 2013, the OEB issued its decision with respect to partial disposition of the balances and recovery of $55,945 from customers over a one year period commencing May 1, 2013.

On May 1, 2014, the OEB issued its decision on the IRM application, requiring disposition of an additional $66,471 with recovery from customers over a one year period commencing May 1, 2014.

(d) Miscellaneous deferred debits:

On December 13, 2005, the OEB issued a letter on the accounting treatment of costs related to Ontario Price Credit ("OPC"). Costs related to the payment of OPC are being deferred. No additional amounts will be approved by the OEB until the next cost of services application.

On May 1, 2013, the OEB issued its decision with respect to partial disposition of the balances and recovery of $1,638 from customers over a one year period commencing May 1, 2013.

On May 1, 2014, the OEB issued its decision on the IRM application, requiring disposition of an additional $1,676 with recovery from customers over a one year period commencing May 1, 2014.

(e) Amounts approved for recovery of regulatory assets:

The Ontario Energy Board Act, 1998 (Ontario) ("OEBA"), approved, as part of the 2006 rates application process, a reallocation for each regulatory asset or liability to a separate account, amounts approved for recovery of regulatory assets. The associated recoveries collected through rates are to be recorded as a reduction of amounts approved for recovery of regulatory assets. Any residual balance at the end of the collection period will be reviewed in future proceedings of the OEB.

4. Regulatory assets and liabilities (continued):

(e) Amounts approved for recovery of regulatory assets (continued):

On May 1, 2013, the OEB issued its decision with respect to partial disposition of the balances and recovery of $51,103 from customers over a one year period commencing May 1, 2013.

On May 1, 2014, the OEB issued its decision on the IRM application, requiring disposition of an additional $52,280 to customers over a one year period commencing May 1, 2014.

(f) Smart Meter deferral account:

This account represents the deferral of operating expenditures, capital expenditures and revenues related to Smart Meters in accordance with the direction set out by the OEB. In total, 11,099 meters were "stranded" and transferred to the regulatory account. The book value of $271,776 for the replaced meters was transferred to regulatory assets in 2010.

(g) MIFRS regulatory adjustments:

On July 17, 2013, the OEB issued a letter that permits LDC's who elect to remain under Canadian generally accepted accounting principles in 2013 to implement Modified International Financial Reporting Standards ("MIFRS") for depreciation expense and capitalization policies effective on January 1, 2013. The financial differences arising from these accounting changes as they relate to property, plant and equipment are included in a new OEB variance account "Accounting Changes under CGAAP". The Corporation recognized a regulatory liability and corresponding expense of $625,581 in 2013.

On May 1, 2014, the OEB issued its decision on the IRM application, requiring full disposition of the balance over a 2 year period commencing May 1, 2014.

5. Investments:

		2014		2013
Investment in the Class A common shares of E.L.K. Solutions Inc., at cost	$	100	$	100
Investment in Gosfield North Communications, at cost		1		1
Investment in the preferred shares of Utilismart Corporation, at market		8,045		8,045
Investment in the common shares of Sun Life Financial, at market		61,874		55,379
	$	70,020	$	63,525

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2014

6. Shareholder promissory note:

During 2014, the shareholder's promissory note was repaid in full. In 2014, the Corporation incurred interest of $81,951 (2013 - $137,750) on this note which is recognized as part of interest expense on the non-consolidated statement of earnings.

7. Bank debt:

	2014	2013
One year term loan with interest rate of 2.04% (2013 - 2.00%) repayable in full on or before maturity of June 2015, secured by a general security agreement	$ 5,900,000	$ 4,800,000

In 2014, the Corporation incurred interest of $101,818 (2013 - $106,223) on bank debt which is recognized as part of interest expense on the non-consolidated statement of earnings.

8. Employee future benefits:

The Corporation pays certain benefits on behalf of its retired employees. The Corporation measures its accrued benefit obligation for accounting purposes as at December 31 each year. A valuation date of December 31, 2010 was used, with results extrapolated to December 31, 2014. Information about Corporation's defined benefit plan, which is unfunded, is as follows:

	2014	2013
Accrued benefit obligation, beginning of year	$ 486,380	$ 539,388
Service cost	11,946	13,853
Interest cost	20,436	21,393
Amortization of actuarial gain	(1,921)	(65,254)
Benefits paid	(23,000)	(23,000)
Projected accrued benefit obligation, end of year, as determined by actuarial valuation	$ 493,841	$ 486,380

	2014	2013
Funded status:		
Funded status, deficit	$ (493,841)	$ (486,380)
Unamortized net actuarial gain	(194,611)	(206,676)
	$ (688,452)	$ (693,056)

8. Employee future benefits (continued):

The main actuarial assumptions employed for the valuations are as follows:

	2014	2013
Discount rate	3.75%	4.25%
Rate of inflation	3%	3%
Rate of compensation increase	nil %	nil %
Medical trend rate:		
Initial	8.2%	8.2%
Ultimate	4%	4%

The approximate impact of a 1% change in health insurance trend rates is as follows:

	2014	2013
Change in obligation for 1% increase in trend rates	$ 45,000	$ 44,000
Change in obligation for 1% decrease in trend rates	(40,000)	(39,000)

9. Share capital:

The authorized and issued share capital is as follows:

	2014	2013
Authorized:		
Unlimited common shares		
Issued:		
30,000 common shares	$ 2,000,100	$ 2,000,100

10. Pension costs:

The Corporation participates in the Ontario Municipal Employees Retirement Fund ("OMERS"), a multi-employer plan, on behalf of its employees. The plan has been accounted for as a defined contribution plan. Contributions during the year were 9.0% (2013 - 9.0%) for employee earnings below the year's maximum pensionable earnings and 14.6% (2013 - 14.6%) thereafter. During 2014, the Corporation expensed contributions totalling $166,610 (2013 - $171,367) made to OMERS in respect of the employer's required contributions to the plan for current service and which is included as an expense on the non-consolidated statement of earnings.

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2014

11. Supplemental cash flow information:

		2014		2013
Cash paid during the year for:				
Interest	$	254,342	$	118,553
Payments in lieu of income taxes		193,180		194,890
Cash received during the year for:				
Interest		71,127		74,572
Payments in lieu of income taxes		1,594		30,542

12. Related party transactions:

The amounts due to/from shareholder and subsidiary are as follows:

		2014		2013
Due to shareholder, included in accounts payable	$	532,260	$	501,799
Due from shareholder, included in accounts receivable		28,332		21,382
Due from subsidiary, included in accounts receivable		234,177		263,967

Transactions with shareholder are as follows:

		2014		2013
Provision of services to shareholder	$	531,482	$	501,515
Interest incurred on shareholder promissory notes		81,951		137,750

These amounts are measured at the exchange amount, which is the amount of consideration paid or received as established and agreed to by the related parties.

13. Future payments in lieu of income taxes:

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Corporation's future tax assets are as follows:

	2014	2013
Property, plant and equipment	$ 730,000	$ 864,000
Employee future benefits	229,000	231,000
Intangible assets	105,000	112,000
Other	146,000	147,000
Future tax assets	$ 1,210,000	$ 1,354,000

14. Fair value of financial assets and liabilities:

The fair value of the Corporation's cash, accounts receivable, accounts payable and accrued liabilities, customer deposits and bank debt approximate their carrying values due to the relative short-term maturity of these financial instruments.

It is not practical to determine the fair value of the investment in subsidiary as it is not publicly traded.

Risk factors:

The Corporation's activities provide for a variety of financial risks, particularly credit risk, market risk and liquidity risk.

i) Credit risk:

Financial assets carry credit risk that a counter-party will fail to discharge and obligation which would result in a financial loss. Financial assets held by the Corporation, such as accounts receivable, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the towns of Essex, Lakeshore, and Kingsville. No single customer in either year would account for revenue in excess of 1% of the respective reported balances.

14. Fair value of financial assets and liabilities (continued):

i) Credit risk (continued):

The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the related impairment loss is recognized in the non-consolidated statement of earnings. Subsequent recoveries of receivables previously provisioned are credited to the non-consolidated statements of earnings. The balance of the allowance for doubtful accounts at December 31, 2014, is $569,102 (2013 - $654,417). No single customer accounts for more than 7% (2013 - 9%) of accounts receivable at year-end.

The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. The Corporation has approximately 11,646 customers, the majority of which are residential. At December 31, 2014, approximately $987,346 (2013 - $1,027,005) is considered 60 days past due. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2014, the Corporation holds security deposits in the amount of $1,096,386 (2013 - $1,069,980).

ii) Market risk:

Market risks primarily refer to the risk of loss that results from changes in commodity prices, foreign exchange rates, and interest rates. The Corporation currently does not have material commodity or foreign exchange risk. The Corporation is exposed to fluctuations in interest rates as the regulated rate of return for the Corporation's distribution business is derived using a complex formulaic approach which is in part based on the forecast for long-term Government of Canada bond yields. This rate of return is approved by the OEB as part of the approval of distribution rates.

iii) Liquidity risk:

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest expense. The Corporation has access to a line of credit and monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2014

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15. Directors' remuneration:

The remuneration of directors amounted to $19,199 (2013 - $20,696).

16. Capital management:

In managing capital, the Corporation focuses on liquid resources available for operations. The Corporation's objective is to have sufficient liquid resources to continue operating despite adverse financial events and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. The need for sufficient liquid resources is considered in the monitoring of cashflows and actual operating results. As at December 31, 2014, the Corporation has met its objective of having sufficient liquid resources to meet its current obligations.

17. Contingencies:

From time to time, the Corporation is involved in various litigation matters arising in the ordinary course of its business. The Corporation has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Corporation's financial position, results of operations or its ability to carry on any of its business activities.

18. Future accounting changes:

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board ("AcSB") adopted a strategic plan converging Canadian GAAP with IFRS, effective January 1, 2011 which would require entities to restate, for comparative purposes, their interim and annual financial statements and their opening financial position.

In October 2010, the AcSB approved the incorporation of IFRS I into Part I of the CPA Handbook – Accounting for qualifying entities with activities subject to rate regulation. Part I of the CPA Handbook - Accounting specifies that first-time adoption is mandatory for interim and annual financial statements relating to annual periods beginning on or after January 1, 2012.

The amendment also requires entities that do not prepare its interim and annual financial statements in accordance with Part I of the CPA Handbook – Accounting during the annual period beginning on or after January 1, 2011 to disclose that fact.

18. Future accounting changes (continued):

In March 2012, the AcSB extended the deferral of adoption of Part I of the CPA Handbook - Accounting for qualifying enterprises with activities subject to rate regulation for an additional year to January 1, 2013.

In January 2013, the AcSB extended the deferral of adoption of Part I of the CPA Handbook - Accounting for qualifying entities with activities subject to rate regulation to January 1, 2015. The Corporation has decided to implement IFRS commencing January 1, 2015.

Appendix 1G- 2013 Audited Financial Statements

Non-Consolidated Financial Statements of

E.L.K. ENERGY INC.

Year ended December 31, 2013

KPMG LLP
Chartered Accountants
618 Greenwood Centre
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INDEPENDENT AUDITORS' REPORT

To the Directors of E.L.K. Energy Inc.

We have audited the accompanying non-consolidated financial statements of E.L.K. Energy Inc., which comprise the non-consolidated balance sheet as at December 31, 2013, the non-consolidated statements of earnings, retained earnings (deficit) and the cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The non-consolidated financial statements have been prepared by management in accordance with the basis of accounting in Note 1 to the non-consolidated financial statements.

Management's Responsibility for the Non-consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements in accordance with the basis of accounting in Note 1 to the non-consolidated financial statements; this includes determining that the basis of accounting is an acceptable basis for the preparation of the non-consolidated financial statements in the circumstances, and for such internal control as management determines is necessary to enable the preparation of the non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these non-consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the non-consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the non-consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements.

KPMG

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the non-consolidated financial statements present fairly, in all material respects, the non-consolidated financial position of E.L.K. Energy Inc. as at December 31, 2013, and its non-consolidated results of operations and its non-consolidated cash flows for the year then ended in accordance with the basis of accounting in Note 1 to the non-consolidated financial statements.

Basis of Accounting and Restriction of Use

Without modifying our opinion, we draw attention to Note 1 to the non-consolidated financial statements, which describes the basis of accounting. The non-consolidated financial statements are prepared to assist E.L.K. Energy Inc. to prepare its corporate income tax returns. As a result, the non-consolidated financial statements may not be suitable for another purpose. Our report is intended solely for E.L.K. Energy Inc. and for the federal and provincial income tax authorities and should not be used by parties other than E.L.K Energy Inc. or the federal and provincial tax authorities.

Other Matters

E.L.K. Energy Inc. has prepared a separate set of consolidated financial statements for the year ended December 31, 2013 in accordance with Canadian generally accepted accounting principles on which we issued a separate auditors' report.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

April 24, 2014
Windsor, Canada

E.L.K. ENERGY INC.

Non-consolidated Balance Sheet

December 31, 2013, with comparative information for 2012

	2013	2012 (restated - see note 20)
Assets		
Current assets:		
Cash:		
Unrestricted	$ 5,090,384	$ 5,240,337
Restricted (note 2)	1,076,199	1,088,915
Accounts receivable (note 12)	2,006,900	1,713,888
Prepaid expenses	137,064	135,286
Unbilled revenue	4,134,838	3,145,044
Inventories	247,725	291,372
Payment in lieu of income taxes receivable	7,480	72,379
	12,700,590	11,687,221
Property, plant and equipment, at cost (note 3)	22,441,325	22,967,595
Less accumulated depreciation	14,374,627	15,726,491
	8,066,698	7,241,104
Future payments in lieu of income taxes (note 13)	1,354,000	1,540,000
Investments (note 5)	63,525	47,068
	$ 22,184,813	$ 20,515,393

Liabilities and Shareholder's Equity

	2013	2012 (restated - see note 20)
Current liabilities:		
Accounts payable and accrued liabilities (note 12)	$ 4,020,158	$ 3,076,421
Current portion of customer deposits	193,019	193,019
Current portion of obligation under capital lease	-	3,271
Current year portion of long-term debt (note 7)	4,800,000	5,600,000
Shareholder promissory notes (note 6)	1,900,000	1,900,000
	10,913,177	10,772,711
Long-term liabilities:		
Customer deposits	876,961	771,948
Regulatory liabilities (note 4)	3,225,359	2,243,082
Employee future benefits (note 8)	693,056	689,303
	4,795,376	3,704,333
Shareholder's equity:		
Share capital (note 9)	2,000,100	2,000,100
Retained earnings (deficit)	73,785	(364,126)
Contributed surplus	4,402,375	4,402,375
	6,476,260	6,038,349
Contingencies (note 17)		
	$ 22,184,813	$ 20,515,393

See accompanying notes to non-consolidated financial statements.

On behalf of the Board:

Director

Director

E.L.K. ENERGY INC.
Non-consolidated Statement of Earnings

Year ended December 31, 2013, with comparative information for 2012

	2013	2012 (restated - see note 20)
Service revenue	$ 24,123,558	$ 22,696,408
Service revenue adjustment	684,968	(99,820)
	24,808,526	22,596,588
Cost of electricity	21,152,044	19,556,199
Gross margin on service revenue	3,656,482	3,040,389
Other operating revenue:		
Interest and other	585,450	976,050
Late payment charges	111,041	108,646
Unrealized gain on investments	16,457	11,026
	712,948	1,095,722
	4,369,430	4,136,111
Expenses:		
Administration	1,012,393	767,567
Billing and collecting	593,037	585,039
Amortization	376,750	854,705
MIFRS regulatory adjustment (note 4h)	625,581	-
Interest	369,198	291,849
Operations and maintenance	725,313	876,831
	3,702,272	3,375,991
Earnings before payments in lieu of income taxes	667,158	760,120
Payments in lieu of income taxes	229,247	119,548
Net earnings	$ 437,911	$ 640,572

See accompanying notes to non-consolidated financial statements.

E.L.K. ENERGY INC.

Non-consolidated Statement of Retained Earnings (Deficit)

Year ended December 31, 2013, with comparative information for 2012

	2013	2012 (restated - see note 20)
Balance, beginning of year	$ (364,126)	$ 392,304
Restatement (note 20)	-	(1,397,002)
Restated balance, beginning of year	(364,126)	(1,004,698)
Net earnings	437,911	640,572
Balance, end of year	$ 73,785	$ (364,126)

See accompanying notes to non-consolidated financial statements.

E.L.K. ENERGY INC.

Non-consolidated Statement of Cash Flows

Year ended December 31, 2013, with comparative information for 2012

		2013		2012 (restated - see note 20)
Cash provided by (used in):				
Operations:				
Net earnings	$	437,911	$	640,572
Items not involving cash:				
Amortization of property, plant and equipment		376,750		854,705
Future payments in lieu of income taxes		186,000		(92,000)
Increase in employee future benefits		3,753		1,116
Unrealized gain on investments		(16,457)		(11,026)
Changes in non-cash operating working capital		(232,301)		(4,259)
		755,656		1,389,108
Financing:				
Increase in long-term customer deposits		105,013		8,347
Decrease in capital lease obligation		(3,271)		(6,541)
Decrease in long-term debt		(800,000)		(800,000)
		(698,258)		(798,194)
Investing:				
Property, plant and equipment additions		(294,701)		(339,087)
Proceeds on sale of property, plant and equipment		4,500		-
Regulatory liabilities		70,134		1,510,855
		(220,067)		1,171,768
Increase (decrease) in cash		(162,669)		1,762,682
Cash, beginning of year		6,329,252		4,566,570
Cash, end of year	$	6,166,583	$	6,329,252
Cash consists of:				
Unrestricted	$	5,090,384	$	5,240,337
Restricted		1,076,199		1,088,915
	$	6,166,583	$	6,329,252

See accompanying notes to non-consolidated financial statements.

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2013

E.L.K. Energy Inc. supplies and distributes electric power and maintains electrical distribution systems in the following communities: Essex, Harrow, Belle River, Comber, Kingsville, and Cottam.

E.L.K. Energy Inc. also performs the billing function for the Municipality of the Town of Essex Water Department.

1. Basis of accounting:

These non-consolidated financial statements have been prepared in accordance with Part V of the CPA Handbook – Accounting except for E.L.K. Energy Inc.'s investment in its wholly-owned subsidiary, E.L.K. Solutions Inc., which is accounted for using the cost method, as well as the accounting treatment for depreciation and capitalization as discussed in note 19 to the non-consolidated financial statements. These non-consolidated financial statements have been prepared in accordance with the significant accounting policies set out below.

2. Significant accounting policies:

(a) Restricted cash:

Restricted cash of $1,076,199 (2012 - $1,088,915) relates to contractor security deposits.

(b) Inventories:

Inventories are valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

(c) Property, plant and equipment:

Property, plant and equipment are recorded at cost. Depreciation is calculated on a straight-line basis over the useful life of the asset as follows:

Buildings	50 years
Distribution and metering equipment	10-60 years
Other assets	5-15 years

The Company recognizes work-in-process for larger capital investment projects that are not in service at the end of the year. When the capital investment projects are completed, they are transferred to the appropriate property, plant and equipment or computer software account. Depreciation of these assets will begin when they are placed in service.

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2013

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2. Significant accounting policies (continued):

(d) Revenue recognition:

Electricity distribution service charges comprises customer billings for electricity and distribution service charges less the cost of electricity purchases by the Corporation. Customer billings for electricity and distribution service charges are recorded on the basis of time of use customer usage from the last billing until the end of the fiscal year. The latter component is recorded as unbilled revenue.

(e) Investments:

The Company has designated its investment in the common shares of Sun Life Financial and its investment in the preferred shares of Utilismart Corporation as held for trading investments and these instruments are recorded at market value as determined by quoted market prices. Realized and unrealized gains and losses as a result of disposition of shares and changes in fair value are recorded in the statement of earnings as an unrealized gain or loss on investments.

The investments in ELK Solutions Inc. and Gosfield North Communications are measured at cost.

(f) Employee future benefits:

The Company provides post retirement benefits for employees who retire from active employment. The Company measures the costs of its obligation based on its best estimate.

The Company accrues its obligations under employee benefit plans as the employees render the services necessary to earn employee future benefits.

The cost of retirement benefits earned by employees is actuarially determined using the projected cost method pro rated on service and the actuary's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. The excess of the net actuarial gain or loss over 10% of the benefit obligation is amortized over the average remaining service period of active employees of the plan, which is 11.3 years at December 31, 2013.

Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

2. Significant accounting policies (continued):

(g) Payments in lieu of taxes ("PILs"):

The Company is currently exempt from taxes under the Income Tax Act (Canada) ("ITA") and the Ontario Corporations Tax Act ("OCTA").

Pursuant to the Electricity Act, the Company is required to compute taxes under the ITA and OCTA and remit such amounts thereunder computed to the Ministry of Finance (Ontario). These amounts, referred to as PILs under the Electricity Act, are applied to reduce certain debt obligations of the former Ontario Hydro continuing as Ontario Electricity Financial Corporation.

The Company provides for amounts in lieu of corporate income taxes using the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. When unrecorded future income taxes become payable, it is expected that they will be included in the rates approved by the Ontario Energy Board ("OEB") and recovered from the customers of the Company at the time.

(h) Pension plan:

The Company provides a pension plan for its employees through the Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund ("the Fund"), and provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The Fund is a contributory defined benefit pension plan. However, as OMERS does not segregate its pension assets and liabilities information by individual employer, there is not sufficient information available to enable the Company to account for the plan as a defined benefit plan. The plan has been accounted for as a defined contribution plan. Obligations for contributions to defined benefit plans are recognized as an employee benefit expense in the statement of operations when they are due.

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2013

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2. Significant accounting policies (continued):

(i) Customer deposits:

Customer deposits comprise cash collections from electricity customers which are applied against any unpaid portion of individual customer accounts. Customer deposits in excess of unpaid account balances are refundable to individuals upon termination of their electricity service.

(j) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities at the date of the financial statements. Significant items subject to such estimates and assumptions include the carrying value of property, plant and equipment, valuation allowances for accounts receivable, regulatory assets and liabilities, future payments in lieu of income taxes and employee future benefits. Actual results could differ from those estimates.

(k) Rate regulation:

(i) Regulatory decisions to adjust distribution rates:

In the event that a regulatory decision is rendered, providing regulatory approval and certainty to the recognition of an asset, or creation of a liability, and culminating in an adjustment to the Company's distribution rates, such occurrences are immediately reflected in the Company's accounts.

(ii) Regulatory direction and practice:

In the absence of a regulatory decision impacting rates, and where the Company is required by regulatory accounting practices or direction to accumulate balances for future rate recovery or create liabilities for future discharge, those amounts are recorded in accordance with that regulatory direction. Management assesses the future uncertainty with respect to the final regulatory disposition of those amounts, and to the extent required, makes accounting provision to reduce the deferred balances accumulated or to increase the recorded liabilities. Upon rendering of the final regulatory decision adjusting distribution rates, the provisions are adjusted to reflect the final impact of the decision, and such adjustment is reflected in net earnings for the period.

E.L.K. ENERGY INC.
Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2013

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2. **Significant accounting policies (continued):**

(k) Rate regulation (continued):

(ii) Regulatory direction and practice (continued):

Amounts currently confirmed by final regulatory decision, and amounts currently accounted for in the absence of final regulatory decision together with related provisions for future uncertainty, are more fully described in note 4 to the non-consolidated financial statements.

(iii) Rate setting:

The distribution rates of the Company are based on rates approved by the OEB on an annual basis. Rates are typically effective May 1 to April 30 of the following year. Accordingly, for the first four months of 2013, distribution revenue is based on rates approved for 2012. Once every four years, the Company files an Electricity Distribution Rate ("EDR") application where rates are rebased through a cost of service review. In the intervening years an Incentive Rate Mechanism ("IRM") application is filed. A cost of service EDR application is based upon a forecast of the amount of operating and capital expenses. An IRM application results in a formulaic adjustment to distribution rates to adjust distribution rates for the annual change in the GSP IPI-FDD net of productivity factor and a "Stretch Factor" determined by the relative efficiency of an electricity distributor.

In December 2009, the OEB concluded a Cost of Capital proceeding with the issuance of a final report. The report principally dealt with the adequacy and determination of the Maximum Allowable Return on Equity ("MARE"). The Board has acknowledged that it needs to refine and reset its current formula for determining MARE to:

(a) acknowledge and incorporate a utility spread off of Canada long-bonds within the Equity Risk Premium ("ERP") to better reflect utility borrowing costs (initially 141.5 bps);

(b) to include a 50 bps transaction cost component within the ERP to reflect estimated transaction costs related to utility borrowing;

(c) reduce MARE volatility from annual changes in the Canada long-bond and by reducing the annual adjustment factor from 0.75 to 0.5;

(d) reflect a more realistic and fair base risk premium for local distributions companies.

2. Significant accounting policies (continued):

(k) Rate regulation (continued):

Smart Meter Initiative:

The Province of Ontario has committed to have "Smart Meter" electricity meters installed in all homes and small businesses throughout Ontario by the end of 2010. Smart Meters permit consumption to be recorded within specific time intervals and specific tariffs to be levied within such intervals.

In support of this initiative, the Company completed its deployment of Smart Meters throughout 2010 and early 2011, with approximately 10,859 Smart Meters deployed. Time of use billing for customers began with the September 2011 billing period.

In accordance with the Smart Meter Funding and Cost Recovery – Final Disposition, December 15, 2011 the Smart Meter funding adder of $1.45 per metered customer per month ceased April 30, 2012.

(l) Long-lived assets:

The Company periodically reviews the useful lives and the carrying values of its long-lived assets for continued appropriateness. The Company reviews for impairment of long-lived assets (or asset groups) to be held and used whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the undiscounted expected future cash flows expected to result from the use and eventual disposition of an asset is less than its carrying amount, it is considered to be impaired. An impairment loss is measured at the amount by which the carrying amount of the asset exceeds its fair value. When quoted market prices are not available, the Company uses the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset as an estimate of fair value.

(m) Financial Instruments:

All financial instruments are carried on the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other liabilities, which are measured at amortized cost.

2. Significant accounting policies (continued):

(m) Financial Instruments (continued):

The Company has classified its financial instruments as follows:

Cash and cash equivalents	Held-for-trading
Accounts receivable	Loans and receivables
Unbilled revenue	Loans and receivables
Accounts payable and accruals	Other liabilities
Customer deposits	Other liabilities
Shareholder promissory notes	Other liabilities
Long-term debt	Other liabilities

(n) Related party transactions:

Transactions with related parties represent the culmination of the earnings process and are measured at the exchange amount.

3. Property, plant and equipment:

(a) Cost:

	Land and buildings	Distribution and metering equipment	Other assets	Total
Balance at January 1, 2012	$ 841,693	$ 18,658,513	$ 3,128,302	$ 22,628,508
Additions	-	329,879	9,208	339,087
Disposals/retirements	-	-	-	-
Balance at December 31, 2012	$ 841,693	$ 18,988,392	$ 3,137,510	$ 22,967,595
Balance at December 31, 2012	$ 841,693	$ 18,988,392	$ 3,137,510	$ 22,967,595
Additions	-	250,665	52,779	303,444
Regulatory asset transfer	-	912,143	-	912,143
Disposals/retirements	-	(91,976)	(1,649,881)	(1,741,857)
Balance at December 31, 2013	$ 841,693	$ 20,059,224	$ 1,540,408	$ 22,441,325

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2013

3. Property, plant and equipment (continued):

(b) Accumulated depreciation:

	Land and buildings	Distribution and metering equipment	Other assets	Total
Balance at January 1, 2012	$ 334,843	$ 11,901,799	$ 2,635,144	$ 14,871,786
Amortization	14,459	687,713	152,533	854,705
Disposals/retirements	-	-	-	-
Balance at December 31, 2012	$ 349,302	$ 12,589,512	$ 2,787,677	$ 15,726,491
Balance at December 31, 2012	$ 349,302	$ 12,589,512	$ 2,787,677	$ 15,726,491
Amortization	14,490	248,484	113,776	376,750
Disposals/retirements	-	(86,233)	(1,642,381)	(1,728,614)
Balance at December 31, 2013	$ 363,792	$ 12,751,763	$ 1,259,072	$14,374,627

(b) Carrying amounts:

	Land and buildings	Distribution and metering equipment	Other assets	Total
December 31, 2012	$ 492,391	$ 6,398,880	$ 349,833	$ 7,241,104
December 31, 2013	$ 477,901	$ 7,307,461	$ 281,336	$ 8,066,698

4. Regulatory assets and liabilities:

Regulatory assets and liabilities arise as a result of the rate regulating process. The Company has recorded the following regulatory assets and liabilities:

	2013	2012 (Restated – see note 20)
Regulatory assets (liabilities):		
Future payments in lieu of income taxes	$ (1,579,330)	$ (2,291,938)
Other regulatory assets (liabilities)	(95,726)	47,330
Miscellaneous deferred debits	1,602	3,240
Amount approved for settlement of regulatory assets	(65,615)	(306,143)
MIFRS regulatory adjustment	(438,661)	–
Retail cost variances	(35,133)	(34,290)
Retail settlement variances	(1,367,223)	(1,153,651)
Smart meter capital and recovery	354,727	1,492,370
	$ (3,225,359)	$ (2,243,082)

4. Regulatory assets and liabilities (continued):

(a) Future payments in lieu of income taxes:

Future payments in lieu of income taxes represent the OEB approved PILs methodology for determining the deferral account allowance. On May 1, 2013, the OEB issued its decision with respect to partial disposition of the balances and payment of $375,969 to customers over a three year period commencing May 1, 2013.

(b) Retail settlement variances:

E.L.K. has deferred certain retail settlement variances amounts under the provisions of Article 490 of the OEB's Accounting Procedures Handbook.

These variances represent amounts that have accumulated since Market Opening and comprise:

(i) variances between amounts charged by the Independent Electricity System Operator ("IESO") for the operation of the wholesale electricity market and grid, various wholesale market settlement charges, amounts charged to allow for the purchase of imported electricity and transmission charges, and the amounts billed to customers by the Company based on the OEB approved market service rate; and

(ii) amounts allocated to the Company and approved by the OEB for the recovery of regulatory assets incurred by Hydro One including low voltage tariffs. The Hydro One recovery of these charges commenced on April 1, 2005 and these costs will be passed through to customers during the rate making process.

On May 1, 2013, The OEB issued its decision with respect to partial disposition of the balances and payment of $255,959 to customers over a one year period commencing May 1, 2013.

4. Regulatory assets and liabilities (continued):

(c) Other regulatory assets:

On December 20, 2004, the OEB issued a letter on the accounting treatment of OEB assessments. The OEB clearly identifies that it is their intent to allow electricity LDC's to record their OEB cost assessments for the Board's fiscal year 2005 and subsequent years in order that these costs may be given consideration for rate recovery in the future.

On May 1, 2013, the OEB issued its decision with respect to partial disposition of the balances and recovery of $55,945 from customers over a one year period commencing May 1, 2013.

(d) Miscellaneous deferred debits:

On December 13, 2005, the OEB issued a letter on the accounting treatment of costs related to Ontario Price Credit ("OPC"). Costs related to the payment of OPC are being deferred. No additional amounts will be approved by the OEB until the next cost of services application.

On May 1, 2013, the OEB issued its decision with respect to partial disposition of the balances and recovery of $1,638 from customers over a one year period commencing May 1, 2013.

(e) Amounts approved for recovery of regulatory assets:

The Ontario Energy Board Act, 1998 (Ontario) ("OEBA"), approved, as part of the 2006 rates application process, a reallocation for each regulatory asset or liability to a separate account, amounts approved for recovery of regulatory assets. The associated recoveries collected through rates are to be recorded as a reduction of amounts approved for recovery of regulatory assets. Any residual balance at the end of the collection period will be reviewed in future proceedings of the OEB.

On May 1, 2013, the OEB issued its decision with respect to partial disposition of the balances and recovery of $51,103 from customers over a one year period commencing May 1, 2013.

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2013

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4. Regulatory assets (continued):

(f) Smart Meter deferral account:

This account represents the deferral of operating expenditures, capital expenditures and revenues related to Smart Meters in accordance with the direction set out by the OEB. In total, 11,099 meters were "stranded" and transferred to the regulatory account. The book value of $271,776 for the replaced meters was transferred to regulatory assets in 2010.

(g) Electricity industry in Ontario:

The Ontario Energy Board Act, 1998 (Ontario) ("OEBA"), conferred on the OEB increased powers and responsibilities to regulate the electricity industry. These powers and responsibilities include the power to approve or fix rates for the transmission and distribution of electricity, the power to provide continued rate protection for rural and remote electricity consumers, and the responsibility for ensuring the distribution companies fulfill obligations to connect and service customers.

The OEB may also prescribe license requirements and records, regulatory accounting principles, separation of accounts for distinct business and filing and processing requirements for rate setting purposes. In its capacity to approve or set rates, the OEB has the authority to specify regulatory treatments that may result in accounting treatments that differ from Canadian generally accepted accounting principles for enterprises operating in a non-rate regulated environment.

(h) MIFRS regulatory adjustments:

On July 17, 2013, the OEB issued a letter that permits LDC's who elect to remain under Canadian generally accepted accounting principles in 2013 to implement Modified International Financial Reporting Standards ("MIFRS") for depreciation expense and capitalization policies effective on January 1, 2013. The financial differences arising from these accounting changes as they relate to property, plant and equipment are included in a new OEB variance account "Accounting Changes under CGAAP". The Company recognized a regulatory liability and corresponding expense of $625,581 in 2013.

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2013

5. Investments:

		2013		2012
Investment in the Class A common shares of E.L.K. Solutions Inc., at cost	$	100	$	100
Investment in Gosfield North Communications, at cost		1		1
Investment in the preferred shares of Utilismart Corporation, at market		8,045		8,045
Investment in the common shares of Sun Life Financial, at market		55,379		38,922
	$	63,525	$	47,068

6. Shareholder promissory notes:

The shareholder promissory notes are payable on demand, accrue interest at 7.25% payable annually, and are secured by a general security agreement. These notes are subordinate to the bank term loan. In 2013, the Company incurred interest of $137,750 (2012 - $137,750) on these notes which is recognized as part of interest expense on the non-consolidated statement of earnings.

7. Long-term debt:

	2013	2012
One year term loan with interest rate of 2.00% (2012 - 2.136%) repayable in full on or before maturity of June 2015, secured by a general security agreement	$ 4,800,000	$ 5,600,000

In 2013, the Company incurred interest of $106,223 (2012 - $132,300) on long-term debt which is recognized as part of interest expense on the non-consolidated statement of earnings.

8. Employee future benefits:

E.L.K. Energy Inc. pays certain benefits on behalf of its retired employees.

The Company measures its accrued benefit obligation for accounting purposes as at December 31 each year. A valuation date of December 31, 2010 was used, with results extrapolated to December 31, 2013.

Information about E.L.K. Energy Inc.'s defined benefit plans, which are unfunded, is as follows:

	2013	2012
Accrued benefit obligation, beginning of year	$ 539,388	$ 546,879
Service cost	13,853	12,840
Interest cost	21,393	22,941
Amortization of actuarial gain	(64,599)	(16,272)
Benefits paid	(23,000)	(27,000)
Projected accrued benefit obligation, end of year, as determined by actuarial valuation	$ 487,035	$ 539,388

	2013	2012
Funded status:		
Funded status, deficit	$ (487,035)	$ (539,388)
Unamortized net actuarial gain	(206,021)	(149,915)
	$ (693,056)	$ (689,303)

The main actuarial assumptions employed for the valuations are as follows:

	2013	2012
Discount rate	4.25%	4.00%
Rate of compensation increase	3%	3%
Medical trend rate:		
Initial	8.2%	8.2%
Ultimate	4%	4%

8. Employee future benefits (continued):

The approximate impact of a 1% change in health insurance trend rates is as follows:

	2013	2012
Change in obligation for 1% increase in trend rates	$ 44,000	$ 49,000
Change in obligation for 1% decrease in trend rates	(39,000)	(43,000)

9. Share capital:

The authorized and issued share capital is as follows:

	2013	2012
Authorized:		
Unlimited common shares		
Issued:		
30,000 common shares	$ 2,000,100	$ 2,000,100

10. Pension costs:

The Company makes contributions to the Ontario Municipal Employees Retirement Fund ("OMERS") which is a multi-employer plan, on behalf of 21 members of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. The OMERS plan is in a deficit position.

The amount contributed to OMERS for 2013 was $171,367 (2012 - $148,200) for current service and is included as an expenditure on the non-consolidated statement of earnings.

In 2013, the contribution rates were 9.0% (2012 - 8.3%) for employees earnings below the year's maximum pensionable earnings and 14.6% (2012 - 12.8%) thereafter.

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2013

11. Supplemental cash flow information:

		2013		2012
Cash paid during the year for:				
Interest	$	118,553	$	293,121
Payments in lieu of income taxes		194,890		218,133
Cash received during the year for:				
Interest		74,572		79,347
Payments in lieu of income taxes		30,542		700,835

12. Related party transactions:

The amounts due to/from shareholder and subsidiary are as follows:

		2013		2012
Due to shareholder, included in accounts payable	$	501,799	$	494,796
Due from shareholder, included in accounts receivable		21,382		21,388
Due from subsidiary, included in accounts receivable		263,967		128,475

Transactions with shareholder are as follows:

		2013		2012
Provision of services to shareholder	$	501,515	$	494,933
Interest incurred on shareholder promissory notes		137,750		137,750

These amounts are measured at the exchange amount, which is the amount of consideration paid or received as established and agreed to by the related parties.

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2013

13. Future payments in lieu of income taxes:

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future tax assets are as follows:

	2013	2012
Property, plant and equipment	$ 864,000	$ 779,566
Employee future benefits	231,000	172,326
Intangible assets	112,000	90,000
Other	147,000	498,108
Future tax assets	$ 1,354,000	$ 1,540,000

14. Fair value of financial assets and liabilities:

The fair value of the Company's cash, accounts receivable, accounts payable and accrued liabilities, customer deposits and current portion of long-term debt approximate their carrying values due to the relative short-term maturity of these financial instruments.

It is not practical to determine the fair value of the investment in subsidiary as it is not publicly traded.

14. Fair value of financial assets and liabilities (continued):

Risk factors:

The Company's activities provide for a variety of financial risks, particularly credit risk, market risk and liquidity risk.

i) Credit risk:

Financial assets carry credit risk that a counter-party will fail to discharge and obligation which would result in a financial loss. Financial assets held by the Company, such as accounts receivable, expose it to credit risk. The Company earns its revenue from a broad base of customers located in the towns of Essex, Lakeshore, and Kingsville. No single customer in either year would account for revenue in excess of 1% of the respective reported balances.

The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the related impairment loss is recognized in the statement of earnings. Subsequent recoveries of receivables previously provisioned are credited to the non-consolidated statements of earnings. The balance of the allowance for doubtful accounts at December 31, 2013 is $654,417 (2012 - $588,117). No single customer accounts for more than 9% (2012 - 3%) of accounts receivable at year-end.

The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers. The Company has approximately 11,350 customers, the majority of which are residential. At December 31, 2013, approximately $1,027,005 (2012 - $973,685) is considered 60 days past due. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2013, the Company holds security deposits in the amount of $1,069,980 (2012 - $964,497).

ii) Market risk:

Market risks primarily refer to the risk of loss that results from changes in commodity prices, foreign exchange rates, and interest rates. The Company currently does not have material commodity or foreign exchange risk. E.L.K. Energy Inc. is exposed to fluctuations in interest rates as the regulated rate of return for the Company's distribution business is derived using a complex formulaic approach which is in part based on the forecast for long-term Government of Canada bond yields. This rate of return is approved by the OEB as part of the approval of distribution rates.

E.L.K. ENERGY INC.

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14. Fair value of financial assets and liabilities (continued):

iii) Liquidity risk:

The Company monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Company's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest expense. The Company has access to a line of credit and monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

15. Directors' remuneration:

The remuneration of directors amounted to $20,696 (2012 - $22,208).

16. Capital management:

In managing capital, the Company focuses on liquid resources available for operations. The organization's objective is to have sufficient liquid resources to continue operating despite adverse financial events and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. The need for sufficient liquid resources is considered in the monitoring of cashflows and actual operating results. As at December 31, 2013, the Company has met its objective of having sufficient liquid resources to meet its current obligations.

17. Contingencies:

From time to time, the Company is involved in various litigation matters arising in the ordinary course of its business. The Company has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Company's financial position, results of operations or its ability to carry on any of its business activities.

18. Future accounting changes:

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board ("AcSB") adopted a strategic plan converging Canadian GAAP with IFRS, effective January 1, 2011 which would require entities to restate, for comparative purposes, their interim and annual financial statements and their opening financial position.

In October 2010, the AcSB approved the incorporation of IFRS I into Part I of the Chartered Professional Accountants' ("CPA") Handbook for qualifying entities with activities subject to rate regulation. Part I of the CPA Handbook specifies that first-time adoption is mandatory for interim and annual financial statements relating to annual periods beginning on or after January 1, 2012.

The amendment also requires entities that do not prepare its interim and annual financial statements in accordance with Part I of the Handbook during the annual period beginning on or after January 1, 2011 to disclose that fact.

In March 2012, the AcSB extended the deferral of adoption of Part I of the CPA Handbook for qualifying enterprises with activities subject to rate regulation for an additional year to January 1, 2013.

In January 2013, the AcSB extended the deferral of adoption of Part I of the CPA Handbook for qualifying entities with activities subject to rate regulation to January 1, 2015. The Company had decided to implement IFRS commencing January 1, 2015.

19. Changes in accounting policies:

In July 2012, the OEB issued a letter to LDC's that provides direction on permitted accounting policies for depreciation expense and capitalization beginning in 2013. In this letter, the OEB states that it will require all LDC's to adopt IFRS-compliance depreciation and capitalization accounting policies effective January 1, 2013, regardless of whether the LDC has chosen to defer the adoption of IFRS as permitted by the AcSB. The OEB also approved the use of a new variance account to capture the financial differences arising as a result of adopting IFRS-compliance accounting policies in 2013. This variance account is to be disposed of as part of the Company's next rate rebasing. Therefore, there will be no impact to net income as a result of these accounting policy changes.

E.L.K. ENERGY INC.

19. Changes in accounting policies (continued):

As such, the Company adopted IFRS-compliant accounting policies for depreciation and capitalization effective January 1, 2013. These policies are selected in accordance with International Accounting Standard 16, "Property, Plant and Equipment" ("IAS 16"). IAS 16 provides more definitive guidance with respect to cost capitalization and componentization for depreciation purposes than that currently followed under Canada GAAP.

Due to the absence of rate regulated accounting guidelines within Canada GAAP, the Company follows regulatory accounting guidance found under US GAAP. In accordance with US GAAP Accounting Standards Codification Section 980, "Regulated Operations," the Company will adopt these changes prospectively with no retrospective restatement of prior periods.

20. Restatement:

During 2013, the Company underwent an audit of Group 1 and Group 2 deferral and variance accounts by the OEB. It was determined that certain regulatory liabilities relating to future payments in lieu of income taxes and retail cost and settlement variances accounts were understated at December 31, 2011. The Company corrected this error retroactively and accordingly, the 2012 comparative figures have been restated as follows:

	2012	Restatement	Restated 2012
Balance sheet:			
Payment in lieu of income taxes receivable	$ 30,132	$ 42,247	$ 72,379
Regulatory liabilities	(803,833)	(1,439,249)	(2,243,082)
Retained earnings (deficit)	(1,032,876)	1,397,002	364,126

Appendix 1H- E.L.K. CGAAP IFRS Conversion KPMG Created Template

ELK																				
Opening balance IFRS restatement		D7 \	D2/D2.1 \	D4 \	D2 \	D13	D6 \	D7 \	D8 \	D7 \	D7 \	D1.1 \	D11 \	D10 \	D12 \	D7 \	D7 \			
	12/31/14, as previously audited	1. Move capital assets included in regulatory to PPE	2. Move accumulated depreciation to cost of PPE	3. Capitalize borrowing costs for Qualifying Asset	4. Move capital contributions received in 2014 to deferred revenue, related amortization to revenue	5. Remove disposals from PPE and recognize loss in the Statement of Operations	6. Move regulatory component of deferred PILs asset to regulatory assets	7. Split regulated settlement variances between debits and credits and move debits to assets	8. Gross up customer billings included in deferral and variance accounts to the Statement of Operations	8a. Gross up expenses included in deferral & variance accounts	8b. Gross up cost of power for charges in deferral & variance accounts	9. Move adjustments to RSVAs included in service revenue or cost of power to net movement in regulatory balances	10. Adjust employee future benefits to projected accrued benefit obligation, and record OCI and expense impact	11. Reclassify long term customer deposits to current liabilities	12. Correct accounting for leases	13. Adjust tax for regulatory tax entry	14. Remove carrying charges on regulatory a/cs from I/S	Do not adjust - add columns before	12/31/14, restated	Total restatements
STATEMENT OF FINANCIAL POSITION				N/A			N/A								N/A					
Current assets																				
Cash - Unrestricted	2,769,144																		2,769,144	-
Cash - Restricted	714,882																		714,882	-
Accounts receivable	1,470,901																		1,470,901	-
Prepaid expenses	137,989																		137,989	-
Unbilled revenue	4,178,403																		4,178,403	-
Inventories	297,798																		297,798	-
Payments in lieu of income tax receivable	84,067																		84,067	-
	9,653,184	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		9,653,184	-
PPE	22,646,687	176,554	(14,960,632)		603,122	(11,340)													8,454,391	(14,192,296)
Less: accumulated amortization	(14,727,322)		14,960,632		(233,310)	5,216													5,216	14,732,538
Regulatory assets	-					6,124		14,257,002											14,263,126	14,263,126
Future PILs	1,210,000															(212,000)			998,000	(212,000)
Investment	70,020																		70,020	-
Total assets	18,852,569	176,554	-	-	369,812	-	-	14,257,002	-	-	-	-	-	-	-	(212,000)	-		33,443,937	14,591,368
Current liabilities																				
Accounts payable and accrued liabilities	(3,727,382)																		(3,727,382)	-
Current portion of customer deposits	(193,019)													(903,367)					(1,096,386)	(903,367)
Bank debt	(5,900,000)																		(5,900,000)	-
Shareholder promissory note	-																		-	-
Payment in lieu of income taxes payable	-																		-	-
Deferred Revenue	-				(369,812)														(369,812)	(369,812)
	(9,820,401)	-	-	-	(369,812)	-	-	-	-	-	-	-	-	(903,367)	-	-	-		(11,093,580)	(1,273,179)
Customer deposits	(903,367)													903,367					-	903,367
Regulatory Liabilities	(132,298)	(176,554)						(14,257,002)								212,000			(14,353,854)	(14,221,556)
Employee future benefits	(688,452)												194,611						(493,841)	194,611
																			-	
S/H Equity:																			-	
Share capital	(2,000,100)																		(2,000,100)	-
Retained earnings	(905,576)	-	-	-	-	-	-	-	(0)	-	-	-	-	-	-	(4,000)	-		(909,576)	(4,000)
Accumulated other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	(194,611)	-	-	4,000	-		(190,611)	(190,611)
Contributed surplus	(4,402,375)																		(4,402,375)	-
	(7,308,051)	-	-	-	-	-	-	-	(0)	-	-	-	(194,611)	-	-	-	-		(7,502,662)	(194,611)
Total Liabilities and S/H Equity	(18,852,569)	(176,554)	-	-	(369,812)	-	-	(14,257,002)	(0)	-	-	-	-	-	-	212,000	-		(33,443,937)	(14,591,368)
check (s/b zero)	-	0	-	-	-	-	-	-	(0)	-	-	-	-	-	-	-	-		0	0
STATEMENT OF OPERATIONS AND RETAINED EARNINGS																				
Service revenue	(26,298,875)								1,550,762			(3,141,846)							(27,889,959)	(1,591,084)
Service revenue adjustment	37,670																		37,670	
Cost of electricity	22,963,742										308,775	3,986,818							27,259,335	4,295,593
Gross margin	(3,297,463)	-	-	-	-	-	-	-	1,550,762	-	308,775	844,972	-	-	-	-	-		(592,954)	2,704,509
Other operating revenue:																				
Interest and other	(280,770)				(233,310)														(514,080)	(233,310)
Late payment charges	(290,679)																114,524		(176,155)	114,524
Unrealized gain on investments	(6,494)																		(6,494)	-
	(577,943)	-	-	-	(233,310)	-	-	-	-	-	-	-	-	-	-	-	114,524		(696,729)	(118,786)
	(3,875,406)	-	-	-	(233,310)	-	-	-	1,550,762	-	308,775	844,972	-	-	-	-	114,524		(1,289,683)	2,585,723
Other Expenditure:																				2,585,723
Administration	866,088																		866,088	-
Billing and collection	592,754																		592,754	-
Amortization	352,695	28,920			233,310														614,925	262,230
Interest	310,612																(135,773)		174,839	(135,773)
Operations and maintenance	806,466					6,124				89,229									901,819	95,353
	2,928,615	28,920	-	-	233,310	6,124	-	-	-	89,229	-	-	-	-	-	-	(135,773)		3,150,425	221,810
Net income before tax and regulatory items	(946,791)	28,920	-	-	-	6,124	-	-	1,550,762	89,229	308,775	844,972	-	-	-	-	(21,249)		1,860,742	2,807,533
Income taxes																				
Payment in lieu of income taxes	115,000															1,000			116,000	1,000
Net Income	(831,791)	28,920	-	-	-	6,124	-	-	1,550,762	89,229	308,775	844,972	-	-	-	1,000	(21,249)		1,976,742	2,808,533
Net movement on regulatory deferral accounts related to profit or loss	-	(28,920)				(6,124)			(1,550,762)	(89,229)	(308,775)	(844,972)				(5,000)	21,249		(2,812,534)	(2,812,534)
Net income after regulatory	(831,791)	-	-	-	-	-	-	-	(0)	-	-	-	-	-	-	(4,000)	-		(835,791)	(4,000)
Other comprehensive income	-												12,065			4000			16,065	16,065
																			-	
Total comprehensive income	(831,791)	-	-	-	-	-	-	-	(0)	-	-	-	12,065	-	-	-	-		(819,726)	12,065
																			-	
Retained Earnings, beginning	(73,785)																		(73,785)	-
Retained Earnings, end	(905,576)	-	-	-	-	-	-	-	(0)	-	-	-	-	-	-	(4,000)	-		(909,576)	(4,000)
check (s/b zero)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(0)

Note: All PPE adjustments for IFRS will go through distribution equipment

Appendix 1I Service Agreement between E.L.K. Energy Inc. and E.L.K. Solutions Inc.

SERVICES AGREEMENT

THIS AGREEMENT made as of the 1st day of January, 2016.

B E T W E E N:

E.L.K. SOLUTIONS INC.

(hereinafter called "**Solutions**")

OF THE FIRST PART;

- and –

E.L.K. ENERGY INC.

(hereinafter called "**Energy**")

OF THE SECOND PART.

WHEREAS Energy is a municipally-owned licensed distributor of electricity pursuant to the *Ontario Energy Board Act*, 1998;

AND WHEREAS Solutions is an affiliate of Energy, as such term is used and defined in the *Affiliates Relationships Code for Electricity Distributors and Transmitters* promulgated by the Ontario Energy Board on April 1, 1999;

AND WHEREAS Solutions is engaged in, or proposes to be engaged in, some of all of the activities which an affiliate of a municipally-owned electricity distributor is permitted to engage in pursuant to Section 71 of the *Ontario Energy Board Act*, 1998;

AND WHEREAS, in order to carry on such activities, Solutions wishes to contract with Energy on the terms and conditions hereinafter set forth for the provision by Energy to Solutions of certain of Energy's resources and the services of certain of Energy's employees;

NOW THEREFORE, the parties agree as follows:

Article I
INTERPRETATION

1.1 Where used in this Agreement, the following expressions shall have the following respective meanings.

(a) "**Act**" means the Ontario Energy Board Act, 1998;

(b) "**Agreement**" means this Agreement and all schedules hereto, as the same may be amended from time to time;

(c) "**Business**" means the business activities now or hereafter carried on by Solutions, being some or all of the activities referred to in Section 71 of the Act;

(d) "**Business Day**" means every day except Saturdays, Sundays and days observed as statutory holidays in the Province of Ontario;

(e) "**Code**" means the *Affiliates Relationships Code for Electricity Distributors and Transmitters*, as revised effective May 16, 2008 by the Ontario Energy Board;

(f) "**Designated Employees**" means the Chief Executive Officer, the Director of Finance and the Operations Manager of Energy, as well as the members of Energy's outside crews;

(g) "**Facilities**" means the office space, office supplies, office furniture and equipment located in Energy's premises at 172 Forest Avenue, Essex, Ontario;

(h) "**Prime Rate**" means the rate of interest per annum announced by the Royal Bank of Canada from time to time as its "prime rate".

(i) "**Services**" means the services of the Designated Employees in the following areas:

(i) general ledger and bookkeeping;

(ii) budgeting;

(iii) tax return preparation and filing;

(iv) governmental liaison and filings;

(v) outdoor installation and maintenance work in connection with activities permitted to be conducted by Solutions under Section 73 of the *Ontario Energy Board Act*,

and the use by such Designated Employees of the Facilities in the course of providing such services;

(j) "**Term**" shall have the meaning ascribed thereto in Section 6.1 of this Agreement.

1.2 Time shall be of the essence in the performance of the parties' respective obligations.

1.3 Words denoting the singular include the plural and vice-versa and words denoting any gender include all genders.

1.4 The use of heading is for convenience of reference only and shall not affect the construction of this Agreement.

Article II
OBLIGATIONS OF ENERGY

2.1 From time to time, and at the request of the Chief Executive Officer of Solutions, one or more of the Designated Employees will be made available by Energy to Solutions to provide Services in relation to the Business. All such Services will be performed under the supervision of Solutions, and Energy will have no responsibility for the supervision of Designated Employees while performing such Services, or for ensuring that they achieve any particular result in performing such Services. Solutions may request the Services of each Designated Employee for up to a maximum of twenty (20) hours per week.

2.2 Designated Employees, in the course of performing Services in relation to the Business under Section 2.1, will have full access to, and use of, the Facilities.

2.3 Energy and Solutions agree that if Solutions at any time during the Term becomes an **"energy service provider"** (as such term is used and defined in the Code), any Designated Employee directly involved in collecting, or having access to, **"confidential information"** (as such term is used and defined in the Code) shall cease, from and after such time, to be available to provide services to Solutions hereunder and will cease to be a Designated Employee hereunder.

Article III
CONFIDENTIALITY

3.1 All information relating to the Business to which Energy may become privy by virtue of this Agreement, is proprietary to Solutions and shall be considered confidential information for the purposes of this Agreement and shall be kept confidential by Energy. All information relating to any aspect of Energy's business is proprietary to Energy and, except as may be required in order to comply with Section 8.1 and enable Solutions to verify the charges it is required to pay pursuant to Section 5.1, shall not be disclosed to Solutions. All such information which is disclosed to Solutions shall be kept confidential by Solutions. Both parties shall exercise the same standard of care with respect to the other party's confidential information as it would exercise with its own confidential information of similar value and kind. Neither party shall disclose or divulge the contents of same to any third party without the prior written consent of the other party, provided that:

(a) either party may disclose any such information which has been publicly disclosed (other than by a party in breach of its obligations hereunder), or which has rightfully come into its possession (other than from the other party); and

(b) to the extent that the party may be compelled by legal or regulatory requirements to disclose any of such information, such party may disclose such information if it shall have used all reasonable efforts to obtain, and shall have afforded the other party the opportunity to obtain, an appropriate protective order, or other satisfactory assurance of confidential treatment for the information compelled to be disclosed.

The parties will satisfy their obligations hereunder by taking appropriate action, by agreement or otherwise, with respect to its employees, including all Designated Employees and other persons capable of accessing the information. Such action shall include, without limitation, diligently applying the available protections, informing personnel of applicable restrictions, and using reasonable care to prevent unauthorized use and disclosure of the information.

3.2 Solutions shall not use Energy's confidential information for any purpose whatsoever, other than verifying the charges it is required to pay pursuant to Section 5.1. Energy shall not use Solution's confidential information for any purpose, except in connection with and to the extent necessary for the provision of the Services pursuant to this Agreement.

3.3 The provisions of Sections 3.1 and 3.2 shall survive any termination of this Agreement.

Article IV
SERVICE LEVELS

4.1 Energy agrees to use all commercially reasonable efforts to ensure that the Designated Employees are available to provide Services in connection with the Business to Solutions as and when requested by Solutions pursuant to Section 2.1, and to use commercially reasonable efforts to ensure that such Designated Employees perform such Services conscientiously and diligently, but other than as provided in this Section 4.1 and Section 4.3, makes no representation or warranty concerning the Services.

4.2 Solutions shall have the right to direct the job functions of the Designated Employees while (and only while) they are providing Services, but nothing in this clause shall be deemed to disturb the direct employment relationship between Energy and the Designated Employees, and nothing in this clause shall be deemed to create an employment relationship between the Designated Employees and Solutions.

4.3 Energy agrees that the Facilities (or replacement facilities of a similar quality) will be kept available for the use by Designated Employees in the course of their performance of Services for Solutions to the same extent that such Facilities are available to such Designated Employees in the course of their rendering services for and on behalf of Energy.

Article V
OBLIGATIONS OF SOLUTIONS

5.1 On the final Business Day of each month during the term of this Agreement, Solutions will pay Energy a fee in respect of each Designated Employee who renders Services hereunder during the immediately prior month, which fee will be composed of the following elements:

(a) The aggregate salary payable by Energy to such Designated Employee in or in respect of such month, divided by the number of hours in such month the Designated Employee is required to work (without taking into account overtime), (the "**Aggregate Business Hours**") multiplied by the number of hours such Designated Employee was involved in rendering Services hereunder during such month (the "**DE Hours Worked**"); and

(b) A 40% mark-up on the amount referred to in clause (a) above, representing an allocation of the costs of providing employee benefits to such Designated Employee; and

(c) The Applicable Fraction of the sum obtained by dividing the number of Aggregate Business Hours in such month by the number of DE Hours Worked by such Designated Employee in such month, and multiplying the result by the total amount paid by Energy in respect of rent, electricity, heating and similar occupancy charges in respect of the Facilities in such month;

(d) The Applicable Fraction of the sum obtained by multiplying Monthly Depreciation by a fraction, the numerator of which is the number of DE Hours Worked by such Designated Employee, and the denominator of which is the Aggregate Business Hours for such month, where "**Monthly Depreciation**" means the sum obtained by multiplying the undepreciated capital cost of all capital equipment comprised within the Facilities by a monthly depreciation charge equal to one-twelfth (1/12th) of the annual depreciation reflected in Energy's books and records in respect of such capital equipment; and

(e) A percentage mark-up on the aggregate of the amounts referred to in clauses (a) to (d) inclusive equal to the higher of, at such time, Energy's annual weighted average cost of capital which has been approved by the Ontario Energy Board in respect of Energy's operations as at such time, divided by 12.

As used above, the term "**Applicable Fraction**" means a fraction having as its numerator the number one, and having as its denominator the total number of employees of Energy using and occupying the Facilities.

The aggregate charges payable by Solutions in respect of all Designated Employees as set out above will be calculated by Energy and set out in a detailed invoice rendered by Energy to Solutions on or before the tenth (10th) day following the completion of each month during the Term.

Article VI
TERM

6.1 The term of this Agreement shall commence as at the date hereof and shall terminate on December 31, 2016.

Article VII
TERMINATION

7.1 This Agreement shall not be terminated except by expiry at the end of the Term or by operation of law, or by mutual agreement of the parties.

Article VIII
ACCESS, AUDIT AND INSPECTION

8.1 Energy agrees to provide Solutions with full and complete written details and materials as may, from time to time, be required by Solutions in support of any invoice rendered by Energy pursuant to Section 5.1, including, without limitation, payroll records and the like.

Article IX
COMPLIANCE WITH LAW

9.1 Energy and Solutions shall maintain compliance with all federal, provincial legislation, rules, regulations and the like during the Term, including, without limitation:

(a) all workplace health and safety legislation;

(b) all human rights and equity compliance obligations;

(c) all contractual obligations relating to benefits, wages and the like;

(d) all manpower confidentiality, safety and security responsibilities; and

(e) the Code and the Act.

Article X
LIMITATION OF LIABILITY

10.1 The parties agrees that there are no warranties, express or implied, except those expressly stated in this Agreement relating to the provision of the Services by Energy and the use of the Services by Solutions. Energy shall not be liable for any indirect, special or consequential damages, such as, but not limited to, loss of anticipated profits or savings or other economic loss in connection with or arising out of the Services. Energy's aggregate liability hereunder for damages, however caused, shall not exceed the total amount actually paid for the Services by Solutions. The parties agree that the Services are provided on the basis of an independent services contract between Solutions and Energy and that no employee of Energy is or shall be deemed to be an employee of Solutions by virtue of the fact that the employee provides Services under this Agreement. The parties further agree that Energy shall continue to be responsible for the employment of all Designated Employees and shall be responsible for all statutory withholdings, payments and levies applicable to such continued employment.

Article XI
DISPUTE RESOLUTION

11.1 Upon written notice by either party to the other (a "**Notice of Arbitration**"), any dispute hereunder (a "Dispute") shall be finally settled by arbitration in accordance with the provisions of the *Arbitration Act* (Ontario) (the "**Arbitration Act**"), subject to the following:

(a) The arbitration tribunal shall consist of one arbitrator appointed by mutual agreement of the parties, or in the event of failure to agree within 10 Business Days following delivery of the Notice of Arbitration, any party may apply to a judge of the Superior Court of Justice (Ontario) to appoint an arbitrator. The arbitrator shall be qualified by education, training and industry experience to rule upon the particular matter to be decided;

(b) The arbitrator shall be instructed that time is of the essence in the arbitration proceeding and, in any event, the arbitration award must be made within 90 days of the submission of the Dispute to arbitration and within 15 days of the conclusion of any hearing, or, if none, written submissions.

(c) After written notice is given to refer any Dispute to arbitration, the parties will meet within 10 Business Days of delivery of the notice and will negotiate in good faith any changes in these arbitration provisions or the rules of arbitration which are herein adopted, in an effort to expedite the process and otherwise ensure that the process is appropriate given the nature of the Dispute and the values at risk;

(d) The arbitration shall take place in Windsor, Ontario and shall be conducted in the English language;

(e) The arbitration award shall be given in writing and shall be final and binding on the parties, and there shall be no appeal therefrom (including on a question of law). The award shall give reasons and shall deal with the question of costs of arbitration and all related matters;

(f) Judgment upon any award may be entered in any Court having jurisdiction or application may be made to the Court for a judicial recognition of the award or an order of enforcement, as the case may be;

(g) All Disputes referred to arbitration (including the scope of the agreement to arbitrate, any statute of limitations, set-off claims, conflict of laws rules, tort claims and interest claims) shall be governed by the substantive law of Ontario; and

(h) The parties agree that the arbitration shall be kept confidential and that the existence of the proceeding and any element of it (including any pleadings, briefs or other documents submitted or exchanged, any testimony or other oral submissions and any awards) shall not be disclosed beyond the arbitrator, the parties, their counsel and any person necessary to the conduct of the proceeding, except as may lawfully be required in judicial proceedings relating to the arbitration or otherwise.

Article XII
GOVERNING LAW

12.1 The laws of the Province of Ontario and the federal laws of Canada applicable therein shall govern this Agreement.

Article XIII
ASSIGNMENT

13.1 Neither party may assign its rights or obligations under this Agreement without the prior written consent of the other party.

Article XIV
NOTICES

14.1 Notices hereunder may be delivered personally or telecopied to the party at the address shown below. The addresses of the parties for notices are as follows:

(a) Solutions: 172 Forest Avenue,
Essex, Ontario
N8M 2E4

Attention: Chief Executive Officer

(b) Energy: 172 Forest Avenue,
Essex, Ontario
N8M 2E4

Attention: Board Chairperson

Article XV
MODIFICATION OF THIS AGREEMENT

15.1 This Agreement may not be modified except by an instrument in writing signed by both parties.

Article XVI
FORCE MAJEURE

16.1 Except as provided herein, Energy shall not be liable for failure to furnish the Services if due to causes or conditions reasonably beyond the control of Energy. Such causes shall include, but not be limited to, labour, unrest, riots, acts of war, epidemics, governmental regulations imposed after the fact, fire, earthquakes, floods or other disasters. The performance of any obligations shall be delayed to the extent, and for the period of time that Energy is prevent from performing it by reason of the above-mentioned causes.

IN WITNESS WHEREOF the parties hereto have executed this Agreement on the day and year written above.

E.L.K. SOLUTIONS INC.

Per: ______________________

E.L.K. ENERGY INC.

Per: Ron McDermott

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Appendix 1J Description of E.L.K.'s main operational units

The following is a description of each of E.L.K.'s main operational units.

1. Operations/Engineering/Fleet:

The Operations department at E.L.K. consists of engineering services, network control operations, substation services and asset management. The Operations department currently has 13 staff, consisting of the Manager of Operations, a Foreman, a Leadhand, and 10 Journeyman. There are plans to increase this department in 2017. Operations define the frequency of maintenance activities and are directly responsible for maintenance and repair on substations. Operations are responsible for maintaining overhead and underground assets outside of E.L.K.'s substations. Collectively they make the distribution system assets function as a reliable and safe system.

Additional responsibility includes the safe and efficient design of the electricity distribution system, ensuring long term plans and expenditures are appropriate to accommodate future customer growth and infrastructure renewal to maintain safe and reliable service levels. These services include: (i) asset management, including the planning and design of overhead, underground, and street lighting distribution projects; (ii) working with new customers or existing customers with expansion requirements to safely and efficiently connect to the distribution system (iii) utilizing engineering standards that are developed within the electricity distribution system in accordance with Electrical Safety Authority ("ESA") standards and regulations; (iv) inspections of the electricity distribution system to ensure compliance with the distribution system code; (v) co-ordination of the OPA's Feed-in Tariff (FIT), microFIT programs, and E.L.K.'s responsibilities under the Ministry of Energy's Green Energy and Green Economy Act (GEGEA); (vi) managing joint use attachments by various third parties (vii) liaison with customers, and developers.

The Operations department uses approved Utility Standard Forum standards and establishes processes to ensure compliance with Ontario Regulation 22/04. Ontario Regulation 22/04 is a performance based standard covering the safety requirements for the design, construction and maintenance of electrical distribution systems in Ontario. Under Ontario Regulation22/04 E.L.K. is audited each year with a report sent to the Electrical Safety Authority. The most recent audit conducted in the winter of 2016 found "no areas of non-compliance or needs improvements".

During major planned and un-planned outages the Operations manager takes on responsibility for assessing overall system needs and may direct Operations staff where appropriate. The groups work as a team to quickly and safely restore power. Customer engagement is very important during outages and as suggested by customers and the media, E.L.K. is working on developing various outreach tools, such as social media.

The Operations manager is also responsible for fleet management and for achieving department results including health and safety objectives.

The field crews are responsible for i) predictive maintenance, ii) preventative maintenance iii) emergency maintenance and repairs, iv) service work v) capital project implementation on overhead and underground distribution plant. Field crews are also available to help other utilities during contingency events. Field crews consist of one foreman, one leadhand, and 10 journeyman lineman. The crews are available 24/7 365 days a year to respond to any planned or un-planned outages on the system. They respond regardless of weather and time of day. Working safely is their main objective while accomplishing tasks quickly and efficiently.

The operations manager is also responsible for the procurement of all goods and services for E.L.K. in accordance with the approved Purchasing Policy, including relationships with suppliers, co-ordination of quotations and tendering processes, and the negotiating of agreements. Further, the receiving of inventory, issuing of materials, and inventory returns, as well as the monitoring and control of inventory, including cycle counts, and building maintenance is also the responsibility of the operations manager.

Operations is also responsible for the purchasing, installation, testing and commissioning of all new simple and complex metering installations. Operations is also responsible for the ensuring meters communicate with either the wireless network or phone interrogation system. Maintaining communications with the wireless AMI system is a new responsibility and new workload requiring daily attention. This is a significant new responsibility that has added not only additional work and accountability, but requires very specific handling of meter changes such that dates, time and locations are accurately tracked through electronic work order management systems so that time-based interval meter readings are not lost. This department is also responsible for all manual reads for ensuring compliance with seal periods as per Measurement Canada requirements.

Fleet Management:

Although not a distinct department, the Operations Manager is responsible for the maintenance and control of approximately 10 vehicles, including 3 bucket trucks, 1 radial boom devices, 1 underground truck, 1 dump truck and 4 SUV's and pick-up trucks. Fleet also manages 3 pieces of equipment such as trailers for poles and material. Having modern, reliable and safe equipment is a mandatory requirement for completing capital and maintenance work efficiently and safely. Working over and next to high voltage conductor means equipment and tools must perform.

E.L.K.'s vehicle replacement program provides for the replacement of small vehicles on an eight year timeframe, the replacement of large trucks on a fifteen year timeframe, and underground/dump trucks on a ten year timeframe. E.L.K.'s objective is to maximize the life of its vehicles and equipment through routine maintenance programs, while at the same time ensuring that the level of capital expenditure on an annual basis is fairly constant. Operational and mechanical assessments are completed each year to determine the condition of each vehicle.

The following items are reviewed: safety aspects of the vehicle; dielectric integrity, operational and body condition; age of the vehicle; kilometers and hours on the vehicle; past major mechanical problems; and potential major mechanical problems.

The Operations department is responsible for the operations and maintenance of E.L.K.'s distribution system. Maintenance activities include those predictive and preventative maintenance programs which proactively determine where issues or risks exist on the distribution system, or where the probabilities are increasing for new issues or risks to occur. E.L.K. continuously reviews and evaluates its maintenance information from visual inspections in order to adjust predictive and preventative actions.

Repair activities consist of both planned and unplanned activities. Planned repairs represent work that is scheduled, and where possible, completed without interruptions to customers. Customer interruptions may be required for immediate emergency repairs, such as distribution system outages or failures due to storms, tree damage, animal or bird contact or equipment failures. Maintenance activities also include tree trimming, removals and brushing, which is on a yearly cycle, with each of the service areas.

E.L.K. engages in the following types of maintenance and service programs, some of which are prescribed by the Distribution System Code (DSC):

Predictive Maintenance

Predictive maintenance activities involve the testing of elements of the distribution system. These activities include infrared thermography testing, transformer oil analysis, planned visual inspections and pole testing. These evaluation tools are all administered using a grid system with appropriate frequency levels. Any identified deficiencies found are prioritized and addressed within a suitable time frame.

Preventative Maintenance

Preventative maintenance activities include inspection, servicing and repair of network components. This includes overhead and pad-mounted load break switch maintenance, insulator washing and cleaning/inspection of underground vaults. Also included are regular inspection and repair of substation components, relays, and ancillary equipment. The work is performed using a combination of time and condition based methodologies. Inspections are conducted on one third of the distribution system each year in accordance with the Minimum Inspection Requirements outlined in Appendix 'C' of the OEB's Distribution System Code ("DSC"). Testing of the distribution assets typically involves the measurement of some aspect of the distribution asset's condition (e.g. the measurement of electrical current and voltage on a system asset). A significant component of preventative maintenance activities is the annual tree-trimming management program. This includes both on-cycle and off-cycle work required because of tree growth or a decline in the condition of a tree such that it requires immediate attention. The service territory has been broken into six sections with one section completed each year.

Emergency Maintenance

This includes unexpected system repairs to the electrical system that must be addressed immediately. The costs include those related to repairs caused by storm damage, emergency tree trimming, high winds and accidents from vehicle contact with poles, guys, etc. The ultimate objective is to reduce this emergency maintenance when possible. This work also includes holding poles with derrick trucks that have been damaged in accidents or when excavation at pole base causes instability.

Service Work

The costs related to this work pertain to service upgrades requested by customers, and requests to provide safety coverage for work (overhead line cover ups). This includes service disconnections and reconnections by E.L.K. for all service classes; assisting pre-approved contractors; making final connections after Electrical Safety Authority ("ESA") inspection for service upgrades; and changes of service locations.

Customer engagement is also a major priority and requirement for Operations. When maintenance or capital work requires planned outages, Operations staff contact many of the customers impacted to arrange mutually convenient times to schedule the work.

Energy Conservation

The Conservation duties fall under the responsibility of the Director, Finance & regulatory Affairs. The mandate is to deliver provincial conservation and renewable generation programs. E.L.K. has currently engaged Greensaver to assist in delivering all aspects of conservation delivery. Greensaver is Ontario's leading not-for-profit energy efficiency organization. For more than 25 years, they have delivered energy conservation programs for government, agencies and utilities, assisting homeowners and businesses across Ontario to reduce their energy and environmental footprint. They are currently the face of 51 utilities.

a) Energy Conservation:

Energy conservation is responsible for implementing and achieving conservation results as required by provincial initiatives. This is developing into a significant workload and responsibility for E.L.K. as the 2015-2020 provincial framework has ambitious targets and limited funding. The funding and reporting for these responsibilities are not part of this application process however conservation efforts require a significant amount of resourcing support from the entire organization. This work is incremental in nature and for the most part been managed by the existing complement. It is not clear whether incremental resources will be required to support the new framework.

2. Finance/regulatory/billing/customer service/IT

The Finance Department includes Billing/IT, Regulatory, and Customer Service. This group consists of one Director of Finance & Regulatory Affairs, one Supervisor of Finance & Customer Service, and 3 full time and one part-time customer service representatives. E.L.K. is planning to increase the complement of this team with one Regulatory/Accounting Analyst.

Financial Services

The Finance department is responsible for the preparation of statutory, management and Board of Directors financial reporting in accordance with CGAAP/IFRS standards; all daily accounting functions, including accounts payable, accounts receivable, capital componentization of assets and general accounting; treasury functions including borrowing and cash management, risk management, accounting systems and internal control processes; preparation of budgets and forecasts; and supporting tax compliance. In addition, this department assumes the responsibility for wholesale settlement with the Independent Electricity System Operator and ensuring compliance with market rules. Financial Services also provides analysis and expert input into major decisions made by the business.

The Director, Finance & Regulatory Affairs is also responsible for all regulatory reporting and compliance with applicable codes and legislation governing electrical utilities. Regulatory reporting includes the development and preparation of rate filings, performance reporting and compliance.

a) IT & Billing

i. IT

The Director, Finance & Regulatory Affairs is also responsible for providing enterprise and departmental systems, solutions and services to support the operational and strategic needs of E.L.K. E.L.K. does outsource all complex issues of IT to our IT consultant who has been with E.L.K. for over 15 years. IT is responsible for the development and implementation of information technology policies, procedures and processes to ensure control and protection of E.L.K.'s assets, data, equipment and associated risks. A new responsibility and cost to the business, is the customer data required as a result of new settlement processes with smart meters. IT must be vigilant with security protocols to avoid un-authorized access to customer data.

The Director, Finance & Regulatory Affairs is also responsible for maintaining and managing performance of E.L.K.'s Automated Metering Infrastructure to support billing processes. The Director, Finance & Regulatory Affairs works closely with Sensus, E.L.K.'s smart meter provider and system operator, and other third parties to ensure that meters are communicating and meter data is received at rates above 98% read interval success. This accuracy minimizes estimating of when consumption occurred through the time of use billing period. Experience has proven that meters, their built-in radios and the collector and transmission network have dynamic performance and intervention is required frequently to keep the system performing at a high level. Weather, tree growth, temperamental equipment and constantly evolving technology make it a real challenge to keep the AMI system performing at a high level. This workload and costs is all new to the business. Also there are no formal training programs available as AMI systems are very new and early in the deployment phase. Experience is sometimes gained through trial and error.

The Director, Finance & Regulatory Affairs also ensures all the components of the smart metering system are functional including the Operational Data Store and that meter data is synching with the provincial Meter Data Management Repository.

ii. Billing

E.L.K. issues approximately 150,000 invoices annually to customers. On average this total includes 1600 final bills for customers moving within or outside of E.L.K.'s service territory. An annual billing schedule is created based on the meter reading cycle schedule to ensure timely billing of services. The billing functions include the VEE processes; EBT and retailer settlement functions for approximately 720 retailer accounts; account adjustments; processing meter changes; and other various account related field service orders and mailing services. E.L.K. offers customers a number of billing and payment options including an equal payment plan and a preauthorized payment plan.

E.L.K. has three full time and one part time billing clerks and there are no plans for changes in 2017.

E.L.K. uses an integrated Customer Information System for billing and managing and reporting on all work activities. Synchronization with the CIS and Operational Data Store (ODS) systems is critical to maintain data consistency with the provincial Meter Data Management Repository. Synchronization files are generated and submitted to the MDMR on a daily basis. Reports related to synchronization file performance are monitored with appropriate action taken when necessary. The Billing group also advises operations when smart meters fail to communicate with the AMI system and when repairs are successful.

Raw consumption data provided from smart meters must be validated prior to acceptance into the billing system. Billing ensures Validation, Editing and Estimation (VEE) is performed in parallel through the ODS to ensure data consistency and integrity with the MDMR. The Director, Finance & Regulatory Affairs ensures communications with the MDMR are successful and resolves any exceptions.

Recently E.L.K. began offering an eBilling service in order to provide a service to customers looking to receive and store bills electronically. This has been a very successful initiative with approximately 1400 customers signed up and using the program.

Billing is also responsible for monthly payment of all renewable generation contracts that customers have with provincial agencies. This workload is incremental and can be very time consuming.

E.L.K. continues to offer a well utilized storefront operation for customer convenience to pay bills, set up accounts, arrange payments and to ask general questions. This customer engagement experience is actually preferred by many customers as an estimated 1,800-2,400 customer visits are made each year.

The Customer Service team is responsible to deliver customer service excellence by responding to customer needs on the phone, in person or through electronic communications. Key activities include processing payments, processing customer moves, making payment arrangements, identifying eligibility for special terms and arrangements based on residential or income status, coordination of disconnects and reconnects, and timely and accurate payment processing and collection of accounts in accordance with Distribution System Code and related procedures. The Customer Service team manages phone and field responses to customers to ensure quality achievement of service level parameters established by the Board, and also process requests for locates and ensure final reads are collected and processed.

The Director, Finance & Regulatory Affairs is also responsible for managing the collection process. The collection process includes the collecting of overdue accounts, final accounts, previously written off accounts and security deposit management. Active overdue accounts are collected by in-house through reminder notices, mailed, and direct telephone contact. In addition, a final attempt is made to contact and speak with the customer prior to disconnecting the service for non-payment. Final bill collections are turned over to a collection agency.

The Director, Finance & Regulatory Affairs is also responsible for benefits administration, pension, recruitment, succession planning, health and wellness, and legislative compliance including privacy.

The Chief Executive Officer (C.E.O.) provides strategic and operational leadership for the business. The C.E.O. is active in the development of all major plans required by the business and often has an execution role as well in both operating and capital programs. The C.E.O. works with the management team to monitor performance against objectives and to decide on remedial actions. The C.E.O. works closely with Board members to develop strategy and ensure results are achieved. The C.E.O. sets the pace for the business and drives continuous improvement both in staff, work processes and equipment. The C.E.O.'s role is key to defining corporate culture and values and drives financial performance and customer service levels.

Appendix 1K – List of Requested Approvals

Appendix 2-A
List of Requested Approvals

The distributor must fill out the following sheet with the complete list of specific approvals requested and relevant section(s) of the legislation must be provided. All approvals, including accounting orders (deferral and variance accounts) new rate classes, revised specific service charges or retail service charges which the applicant is seeking, must be separately identified, as well being clearly documented in the appropriate sections of the application.

Additional requests may be added by copying and pasting blank input rows, as needed.

If additional requests arise, or requested approvals are removed, during the processing of the application, the distributor should update this list.

E.L.K. Energy Inc. is seeking the following approvals in this application:

1		Approval under Section 78 of the Ontario Energy Board Act, 1998 to charge distribution rates effective May 1, 2017 to recover a service revenue requirement of $4,513,093 which includes a revenue deficiency of $627,952 as detailed in Exhibit 6. The schedule of proposed rates is set out in Exhibit 8.
2		Approval of the Distribution System Plan as outlined in Exhibit 2.
3		Approval of revised low voltage rates as proposed and described in Exhibit 8.
4		Approval to adjust the Retail Transmission Rates - Network and Connection as detailed in Exhibit 8.
5		Approval to continue to charge Wholesale Market and Rural Rate Protection Charges approved in the Board Decision and Order in the matter of E.L.K.`s 2016 Distribution Rates (EB-2015-0064).
6		Approval to continue the Specific Service Charges and Transformer Allowance approved in the Board Decision and Order in the matter of E.L.K.`s 2016 Distribution Rates (EB-2015-0064).
7		Approval of the proposed loss factors as detailed in Exhibit 8.

8		Approval of the rate riders for a one year disposition of the Group 1 and Other Deferral and Variance Accounts as detailed in Exhibit 9.
9		Approval of the rate riders for a one year disposition of the Lost Revenue Adjustment Mechanism Variance Account (`LRAMVA``) for lost revenue from 2011 to 2015 resulting from 2011 to 2015 IESO (formally OPA) programs as detailed in Exhibit 4.
10		Approval to continue to charge Hydro One Networks Inc. (`HONI`), the Embedded Distributor Rate class. HONI has been consulted and supports the continued classification of the relevant HONI connections in this class. The evidence for this proposal is provided in Exhibit 7.
11		To change the wording under specific service charges from Returned Cheque (plus bank charges) to Returned Item (plus bank charges).
12		To change the wording under Specific charge for access to the power poles - $/pole/year (with the exception of wireless attachments). E.L.K. is not proposing a change to the dollar value, simply the wording as a general housekeeping item to make it more specific, and all inclusive. E.L.K.'s proposal is to rename this specific charge to Specific charge for all attachments to the power poles (including streetlighting attachments) $/pole/year (with the exception of wireless attachments).
13		13. E.L.K. is applying to increase the specific service charge for service call – customer owned equipment and service call – after regular hours to a more reasonable and actual cost amount for the work performed